

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2003

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

For the transition period from _____ to _____

Commission File Number 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

(Former Name, former address and former fiscal year,
if changed since last report.)

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

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 28, 2003.

73,943,301.

Part I - Financial Information

Item 1. Financial Statements

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)

(UNAUDITED)		
Assets	September 30, 2003	December 31, 2002
Property, plant and equipment, at cost	\$2,253,531	\$1,836,892
Less accumulated depreciation	459,891	346,051
Net property, plant and equipment	1,793,640	1,490,841
Current assets:		
Cash and cash equivalents	20,797	5,915
Accounts receivable and unbilled revenues, net	68,542	57,680
Inventory, materials and supplies	6,125	4,555
Prepayments and other current assets	5,362	2,758
Total current assets	100,826	70,908
Regulatory assets	93,377	88,175
Deferred charges and other assets, net	31,584	23,391
Funds restricted for construction activity	29,873	43,754
	\$2,049,300	\$1,717,069
	=====	=====
Liabilities and Stockholders' Equity		
Stockholders' equity:		
Common stock at \$.50 par value, authorized 100,000,000 shares, issued 74,588,853 and 70,067,784 in 2003 and 2002	\$ 37,294	\$ 35,034
Capital in excess of par value	418,844	317,871
Retained earnings	192,935	180,047
Minority interest	850	503
Treasury stock, 671,134 and 2,151,350 shares in 2003 and 2002	(12,467)	(40,421)
Accumulated other comprehensive income	137	63
Total stockholders' equity	637,593	493,097
6.05% Series B cumulative preferred stock	172	172
Long-term debt, excluding current portion	695,811	582,910
Commitments	-	-
Current liabilities:		
Current portion of long-term debt	34,369	34,265
Loans payable	109,849	115,113
Accounts payable	20,391	31,058
Accrued interest	9,585	9,269
Accrued taxes	26,203	14,500
Dividends payable	10,467	-
Other accrued liabilities	35,967	22,326
Total current liabilities	246,831	226,531
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	173,335	187,300
Customers' advances for construction	73,823	69,790
Other	17,541	13,330
Total deferred credits and other liabilities	264,699	270,420
Contributions in aid of construction	204,194	143,939
	\$2,049,300	\$1,717,069
	=====	=====

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

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

(UNAUDITED)

	Nine Months Ended September 30,	
	2003	2002
Operating revenues	\$266,021	\$240,202
Costs and expenses:		
Operations and maintenance	98,470	87,343
Depreciation	35,439	30,475
Amortization	2,251	1,933
Taxes other than income taxes	15,823	14,672

	-----	-----
	151,983	134,423
	-----	-----
Operating income	114,038	105,779
Other expense (income):		
Interest expense, net	32,985	30,257
Allowance for funds used during construction	(1,489)	(1,198)
Gain on sale of other assets	(4,414)	(2,079)
	-----	-----
Income before income taxes	86,956	78,799
Provision for income taxes	34,769	30,252
	-----	-----
Net income	52,187	48,547
Dividends on preferred stock	8	39
	-----	-----
Net income available to common stock	\$ 52,179	\$ 48,508
	=====	=====
Net income	\$ 52,187	\$ 48,547
Other comprehensive income (loss), net of tax:		
Unrealized gain on securities	156	167
Reclassification adjustment for gains reported in net income	(82)	(767)
	-----	-----
Comprehensive income	\$ 52,261	\$ 47,947
	=====	=====
Net income per common share:		
Basic	\$ 0.75	\$ 0.71
	=====	=====
Diluted	\$ 0.74	\$ 0.70
	=====	=====
Average common shares outstanding during the period:		
Basic	69,483	68,678
	=====	=====
Diluted	70,226	69,397
	=====	=====

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

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

(UNAUDITED)

	Three Months Ended September 30,	
	2003	2002
	-----	-----
Operating revenues	\$102,153	\$91,918
Costs and expenses:		
Operations and maintenance	36,777	31,143
Depreciation	12,628	10,275
Amortization	889	724
Taxes other than income taxes	5,557	4,737
	-----	-----
	55,851	46,879
	-----	-----
Operating income	46,302	45,039
Other expense (income):		
Interest expense, net	11,722	10,586
Allowance for funds used during construction	(613)	(266)

Gain on sale of other assets	(4,194)	(321)
	-----	-----
Income before income taxes	39,387	35,040
Provision for income taxes	15,764	13,213
	-----	-----
Net income	23,623	21,827
Dividends on preferred stock	3	12
	-----	-----
Net income available to common stock	\$ 23,620	\$21,815
	=====	=====
Net income	\$ 23,623	\$21,827
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on securities	7	(178)
Reclassification adjustment for gains reported in net income	(71)	(74)
	-----	-----
Comprehensive income	\$ 23,559	\$21,575
	=====	=====
Net income per common share:		
Basic	\$ 0.33	\$ 0.32
	=====	=====
Diluted	\$ 0.33	\$ 0.31
	=====	=====
Average common shares outstanding during the period:		
Basic	71,622	68,903
	=====	=====
Diluted	72,280	69,422
	=====	=====

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

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

(UNAUDITED)

	September 30, 2003	December 31, 2002
	-----	-----
Stockholders' equity:		
Common stock, \$.50 par value	\$ 37,294	\$ 35,034
Capital in excess of par value	418,844	317,871
Retained earnings	192,935	180,047
Minority interest	850	503
Treasury stock	(12,467)	(40,421)
Accumulated other comprehensive income	137	63
	-----	-----
Total stockholders' equity	637,593	493,097
	-----	-----
6.05% Series B cumulative preferred stock	172	172
Long-term debt:		
Long-term debt of subsidiaries (substantially secured by utility plant):		
Interest Rate Range		
0.00% to 2.49%	16,521	18,009
2.50% to 2.99%	16,622	14,052
3.00% to 3.49%	5,475	4,733
3.50% to 3.99%	2,800	3,200
4.00% to 4.99%	8,135	8,135
5.00% to 5.49%	97,875	90,955
5.50% to 5.99%	76,260	86,260
6.00% to 6.49%	119,360	126,360
6.50% to 6.99%	52,000	52,000
7.00% to 7.49%	46,756	58,000
7.50% to 7.99%	23,000	23,000
8.00% to 8.49%	17,500	17,497
8.50% to 8.99%	9,000	9,000
9.00% to 9.49%	53,846	54,359
9.50% to 9.99%	43,242	44,637
10.00% to 10.50%	6,000	6,000
	-----	-----
Notes payable, 6.05%, due 2006	594,392	616,197
	788	978
Unsecured notes payable, 4.87%, due 2023	135,000	-
	-----	-----
	730,180	617,175

Current portion of long-term debt	34,369	34,265
	-----	-----
Long-term debt, excluding current portion	695,811	582,910
	-----	-----
Total capitalization	\$1,333,576	\$1,076,179
	=====	=====

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

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands of dollars)

(UNAUDITED)

	Nine Months Ended September 30,	
	2003	2002
	-----	-----
Cash flows from operating activities:		
Net income	\$ 52,187	\$ 48,547
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	37,690	32,408
Deferred income taxes	7,526	5,110
Gain on sale of other assets	(4,414)	(2,079)
Net increase in receivables, inventory and prepayments	(2,978)	(1,814)
Net increase (decrease) in payables, accrued interest, accrued taxes and other accrued liabilities	6,642	(9,371)
Other	(4,625)	974
	-----	-----
Net cash flows from operating activities	92,028	73,775
	-----	-----
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of \$1,489 and \$1,198	(105,948)	(89,028)
Acquisitions of water and wastewater systems	(196,099)	(7,909)
Proceeds from the sale of other assets	4,993	6,258
Net decrease (increase) in funds restricted for construction activity	13,880	(7,657)
Other	(403)	(300)
	-----	-----
Net cash flows used in investing activities	(283,577)	(98,636)
	-----	-----
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	6,462	7,171
Repayments of customers' advances	(1,306)	(2,131)
Net repayments of short-term debt	(5,264)	(7,433)
Proceeds from long-term debt	145,404	57,270
Repayments of long-term debt	(40,467)	(5,438)
Redemption of preferred stock	(401)	(305)
Proceeds from issuing common stock	131,609	8,477
Repurchase of common stock	(774)	(1,476)
Dividends paid on preferred stock	(8)	(39)
Dividends paid on common stock	(28,824)	(27,294)
Other	-	(994)
	-----	-----
Net cash flows from financing activities	206,431	27,808
	-----	-----
Net increase in cash and cash equivalents	14,882	2,947
Cash and cash equivalents at beginning of period	5,915	1,010
	-----	-----
Cash and cash equivalents at end of period	\$ 20,797	\$ 3,957
	=====	=====

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

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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 September 30, 2003, the consolidated statements of income and comprehensive income for the nine months and quarter ended September 30, 2003 and 2002, and the consolidated statements of cash flow for the nine months ended September 30, 2003 and 2002, 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, 2002 and the Quarterly Reports on Form 10-Q for the quarters ended June 30, 2003 and March 31, 2003. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year.

Note 2

Acquisitions

Pursuant to our strategy to grow through acquisitions, on July 31, 2003, PSC completed its acquisition of four operating water and wastewater subsidiaries of AquaSource, Inc. (a subsidiary of DQE, Inc.), including selected, integrated operating and maintenance contracts and related assets (individually and collectively the acquisition is referred to as "AquaSource") for \$195,533 in cash. Pursuant to the purchase agreement, the total amount paid for AquaSource at closing consisted of a purchase price of \$190,179 ("purchase price") plus a working capital adjustment of \$5,354, both of which are subject to further adjustment upon completion of a closing balance sheet and the finalization of other adjustments that may occur over approximately a six month period. At this time, PSC expects the finalization of adjustments to result in a decrease in the total amount paid for AquaSource. The purchase agreement provides for a minimum purchase price of \$174,000. The maximum amount of the working capital adjustment under the purchase agreement is \$10,000. The results of AquaSource have been included in our consolidated financial statements beginning August 1, 2003. The acquired operations of AquaSource serve over 130,000 water and wastewater customer accounts in eleven states (including the Connecticut operations which were sold in October 2003). For the fiscal year ended December 31, 2002, the acquired operations had revenues of \$69,541 (unaudited).

Under the purchase method of accounting, the purchase price is allocated to AquaSource's net tangible and intangible assets based upon their estimated fair values at the date of the acquisition. PSC is in the process of obtaining and reviewing a third-party valuation of the non-regulated net tangible and intangible assets. The purchase price allocation for this acquisition is based on preliminary estimates and valuations and will be refined at a later date with additional information concerning

the final purchase price and the final asset and liability valuations. The preliminary purchase price allocation is as follows (unaudited):

	July 31, 2003

Property, plant and equipment, net	\$214,187
Current assets	9,783
Other long-term assets	14,204
Assets held for sale, net	4,096

Total assets acquired	242,270

Current liabilities	7,270
Long-term debt	7,170
Other long-term liabilities	32,297

Total liabilities assumed	46,737

Net assets acquired	\$195,533
	=====

The net property, plant and equipment balance includes accumulated depreciation of \$91,296. The following supplemental pro forma information is presented to illustrate the effects of the AquaSource acquisition, which was completed on July 31, 2003, on the historical operating results for the three and nine months ended September 30, 2003 and 2002 as if the acquisition had occurred at the beginning of the respective periods (unaudited):

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2003	2002	2003	2002
	-----	-----	-----	-----
Operating revenues	\$306,416	\$291,866	\$108,266	\$110,549
Net income	\$ 55,854	\$ 52,434	\$ 24,261	\$ 23,135
Net income per common share:				
Basic	\$ 0.77	\$ 0.72	\$ 0.33	\$ 0.32
Diluted	\$ 0.76	\$ 0.71	\$ 0.33	\$ 0.32

The supplemental information is not necessarily representative of the actual results that may have occurred for these periods or of the results that may occur in the future. This information does not reflect the effects of recent rate increases or cost savings that may result from the acquisition, such as the effects of a reduction in administrative costs. This information is based upon the historical operating results of AquaSource for periods prior to the acquisition date of July 31, 2003 as provided to PSC by AquaSource, Inc. and DQE, Inc. management.

In May 2003, PSC announced agreements for the sale of the AquaSource regulated and nonregulated operations located in Connecticut and New York to a New England-based water company for an aggregate purchase price of \$5,000 and the assumption of approximately \$800 of debt. The sale of the Connecticut regulated operations closed on October 31, 2003. The sale of the New York regulated operations is subject to state regulatory approval. Closing on the sale of the New York operations is expected to occur by early 2004. The combined operations in New York and Connecticut represented approximately 2% of the operations acquired from AquaSource, Inc.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars, except per share amounts) (continued)
(UNAUDITED)

Note 3 Long-term Debt and Loans Payable

In July 2003, PSC issued \$135,000 of unsecured notes due 2023 and with an interest rate of 4.87%. In July 2003, an unsecured note of \$90,000 was issued by PSC. Interest under this note is based, at the borrower's option, on either a defined base rate or an adjusted London Interbank Offered Rate corresponding to the interest period selected. The proceeds of these financings were used to fund the AquaSource acquisition and to refinance existing debt. The unsecured note of \$90,000 was repaid on August 21, 2003 with proceeds from the issuance of common stock. At various times during the first nine months of 2003, our operating subsidiaries issued notes payable in aggregate of \$11,480 at various rates ranging from 1% to 5.1% due at various times in 2022, 2023, and 2032.

Note 4 Water Rates

During the first nine months of 2003, operating subsidiaries located in Pennsylvania, Illinois, Ohio and Maine were granted rate increases, representing thirteen rate adjustments, intended to increase total revenues by approximately \$9,001 on an annual basis. Revenues from the rate increases recorded in the first nine months of 2003 were approximately \$5,333.

Note 5 Stockholders' Equity

On August 5, 2003, PSC's Board of Directors declared a 5-for-4 common stock split to be effected in the form of a 25% stock distribution for shareholders of record on November 14, 2003. The new shares will be distributed on December 1, 2003. PSC's par value of \$.50 per share will not change as a result of the common stock distribution, and as a result, on the distribution date an amount will be transferred from Capital in Excess of Par Value to Common Stock to record the common stock split. The share and per share data contained in this Quarterly Report on Form 10-Q have not been restated to give effect to this stock dividend.

On August 21, 2003, PSC issued 4,000,000 shares of common stock through a shelf registration, providing proceeds of approximately \$90,100, net of expenses. A portion of the net proceeds were used to repay an unsecured note of \$90,000. The indebtedness was incurred by PSC in connection with the acquisition of the operations that were purchased from AquaSource, Inc.

On May 19, 2003, PSC issued 1,495,000 shares of common stock through a shelf registration, providing proceeds of approximately \$33,100, net of expenses. The net proceeds were used to repay short-term debt, including the repayment of \$22,000 of indebtedness incurred in connection with our repurchase of 1.2 million shares of our common stock from affiliates of Veolia Environnement, S.A. (formerly Vivendi Environnement, S.A.) in October 2002.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars, except per share amounts) (continued)
(UNAUDITED)

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:

	2003 -----	2002 -----
Balance at January 1,	\$ 63	\$ 726
Unrealized holding gain arising during the period, net of tax of \$83 in 2003 and \$89 in 2002	156	167
Less: reclassification adjustment for gains included in net income, net of tax of \$44 in 2003 and \$412 in 2002	(82)	(767)
Other comprehensive income (loss), net of tax	74	(600)
Balance at September 30,	\$ 137 =====	\$ 126 =====

Note 6 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:

	Nine Months Ended September 30, -----		Three Months Ended September 30, -----	
	2003 -----	2002 -----	2003 -----	2002 -----
Average common shares outstanding during the period for Basic computation	69,483	68,678	71,622	68,903
Dilutive effect of employee stock options	743	719	658	519
	-----	-----	-----	-----
Average common shares outstanding during the period for Diluted computation	70,226 =====	69,397 =====	72,280 =====	69,422 =====

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars, except per share amounts) (continued)
(UNAUDITED)

Note 7 Stock-Based Compensation

PSC accounts for stock-based compensation using the intrinsic value method in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense related to granting of stock options has been recognized in the financial statements for stock options

that have been granted. Pursuant to the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, pro forma net income available to common stock and earnings per share are presented in the following table as if compensation cost for stock options was determined as of the grant date under the fair value method:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2003	2002	2003	2002
Net income available to common stock:				
As reported	\$ 52,179	\$48,508	\$23,620	\$21,815
Less: pro forma expense related to stock options granted, net of tax effects	(1,216)	(951)	(405)	(317)
Pro forma	\$ 50,963	\$47,557	\$23,215	\$21,498
Basic net income per share:				
As reported	\$ 0.75	\$ 0.71	\$ 0.33	\$ 0.32
Pro forma	0.73	0.69	0.32	0.31
Diluted net income per share:				
As reported	\$ 0.74	\$ 0.70	\$ 0.33	\$ 0.31
Pro forma	0.73	0.69	0.32	0.31

The fair value of options at the date of grant was estimated using the Black-Scholes option-pricing model.

Note 8

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") approved Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. When the liability is initially recognized, the carrying amount of the related long-lived asset is increased by the same amount. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, PSC may settle the obligation for its recorded amount, or an alternative amount, thereby incurring a gain or loss upon settlement. The adoption of this statement as required on January 1, 2003 did not have a material impact on PSC's results of operations or financial position.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In April 2002, the FASB approved SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145, among other things, rescinds SFAS No. 4, which required all gains and losses from the extinguishment of debt to be classified as an extraordinary item and amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. PSC adopted this statement in the first quarter of 2003 and it did not have a material impact on PSC's results of operations or financial

position.

In June 2002, the FASB approved SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement replaces the previous accounting guidance provided in Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. PSC adopted this standard in the first quarter of 2003 and it did not have a material impact on PSC's results of operations or financial position.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of SFAS No. 5, 57 and 107 and rescission of SFAS No. 34. This interpretation clarifies the requirements of FASB Statement No. 5, "Accounting for Contingencies" relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure provisions of the interpretation are effective for financial statements of periods ending after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. PSC adopted the accounting provisions of this standard in the first quarter of 2003 and it did not have a material impact on PSC's results of operations or financial position.

In April 2003, the FASB approved SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. PSC believes the adoption of this standard will have no effect on its results of operations or financial position. As of September 30, 2003, PSC had no derivative instruments or hedging activities.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In May 2003, the FASB approved SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments with characteristics of both liabilities and equity. The standard is effective for financial instruments entered into or modified after May 31, 2003, and is otherwise effective July 1, 2003. This statement did not have a material impact on PSC's results of operations or financial position.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 contain, 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; possible acquisitions and other growth ventures; the completion of various construction projects; the projected effects of recent accounting pronouncements; the final purchase price for AquaSource; the completion of the sale of the New York AquaSource operations; the projected annual value of rate increases, the effect of any additional minimum liability that may be recognized in connection with our defined benefit retirement plan, 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, acquisitions, the rate of return on our pension assets, the discount rate used to value pension liabilities, and our ability to assimilate acquired operations. 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 2.5 million people in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. One of our operating subsidiaries provides water or wastewater services to approximately 1.3 million people in the suburban areas north and west of the City of Philadelphia and in 18 other counties in Pennsylvania. In addition we provide water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our operating companies' service territories. We are the largest U.S.-based publicly-traded water utility based on number of people served.

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

Financial Condition

During the first nine months of 2003, we acquired AquaSource for \$195,533 in cash, had \$105,948 of capital expenditures, repaid \$1,306 of customer advances for construction and repaid debt and made sinking fund contributions and other loan repayments of \$40,467. The capital expenditures were related to improvements to treatment plants, new and rehabilitated water mains, customer service lines and hydrants, in addition to well and booster improvements.

During the first nine months of 2003, the proceeds from the issuance of long-term debt, proceeds from the issuance of common stock, internally generated funds and available working capital were used to fund the cash requirements discussed above and to pay dividends. On May 19, 2003, PSC issued 1,495,000 shares of common stock through a shelf registration, providing proceeds of approximately \$33,100, net of expenses. The net proceeds were used to repay short-term debt, including the repayment of \$22,000 of indebtedness incurred in connection with our repurchase of 1.2 million shares of our common stock from affiliates of Veolia Environnement, S.A. (formerly Vivendi Environnement, S.A.) in October 2002. In July 2003, PSC issued \$135,000 of unsecured notes due 2023 and with an interest rate of 4.87%. Also in July 2003, an unsecured note of \$90,000 was issued by PSC. The proceeds of these financings were used to fund the AquaSource acquisition, and to refinance existing debt. At various times during the first nine months of 2003, our operating subsidiaries issued notes payable in aggregate of \$11,480 at various rates ranging from 1% to 5.1% due at various times in 2022, 2023, and 2032. On August 21, 2003, PSC issued 4,000,000 shares of common stock through a shelf registration, providing proceeds of approximately \$90,100, net of expenses. The net proceeds were used to repay the unsecured note of \$90,000 that had been issued in July 2003. The indebtedness had been incurred by PSC in connection with the acquisition of the operations that were purchased from AquaSource, Inc. At September 30, 2003, we had short-term lines of credit of \$179,000, of which \$69,151 was available. On August 5, 2003, PSC's Board of Directors increased the quarterly cash dividend on common stock from \$.14 per share to \$.15 per share effective upon the December 1, 2003 payment.

On July 31, 2003, we completed the acquisition of four operating water and wastewater subsidiaries of AquaSource, Inc. (a subsidiary of DQE, Inc.), including selected, integrated operating and maintenance contracts and related assets (individually and collectively the acquisition is referred to as "AquaSource") for \$195,533 in cash. Pursuant to the purchase agreement, the total amount paid for AquaSource at closing consisted of a purchase price of \$190,179 ("purchase price") plus a working capital adjustment of \$5,354, both of which are subject to further adjustment upon completion of a closing balance sheet and the finalization of other adjustments that may occur over approximately a six month period. At this time, PSC expects the finalization of adjustments to result in a decrease in the total amount paid for AquaSource. The purchase agreement provides for a minimum purchase price of \$174,000. The maximum amount of the working capital adjustment under the purchase agreement is \$10,000. The acquired operations of AquaSource serve over 130,000 water and wastewater customer accounts in eleven states (including the Connecticut operations which were sold in October 2003). For the fiscal year ended December 31, 2002, the acquired operations had revenues of \$69,451 (unaudited). In May 2003, we announced agreements for the sale of the AquaSource regulated and nonregulated operations located in Connecticut and New York to a New England-based water company for an aggregate purchase price of \$5,000 and the

assumption of approximately \$800 of debt. The sale of the Connecticut regulated operations closed on October 31, 2003. The sale of the New York regulated operations is subject to regulatory approval. Closing on the sale of the New York operations is expected to occur by early 2004. The combined operations in New York and Connecticut represented approximately 2% of the operations acquired from AquaSource, Inc.

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

Results of Operations

Analysis of First Nine Months of 2003 Compared to First Nine Months of 2002

Revenues for the first nine months increased \$25,819 or 10.7% primarily due to increased water rates granted to our Pennsylvania, Ohio, New Jersey and Maine operating subsidiaries, and additional water revenues associated with the larger customer base due to acquisitions, offset by lower water consumption due to unfavorable weather conditions in several of the states where we operate. The above-average rainfall experienced in the summer of 2003 resulted in lower customer water usage as compared to the same period in 2002. The AquaSource acquisition, which was closed on July 31, 2003, provided operating revenues of \$11,747 since the date of the acquisition.

Operations and maintenance expenses increased by \$11,127 or 12.7% primarily due to the additional operating costs associated with acquisitions, primarily from AquaSource, increased postretirement benefits expenses, and higher maintenance expenses, offset in part by reduced bad debt expense. The postretirement benefits expense increase resulted principally from higher pension costs and increased retiree medical costs. The increased maintenance expenses are primarily a result of additional main break repairs resulting from the relatively harsh winter weather that was experienced in 2003.

Depreciation expense increased \$4,964 or 16.3% reflecting the utility plant placed in service since the third quarter of 2002, including the assets acquired through system acquisitions.

Amortization increased \$318 due to the AquaSource acquisition and the amortization of the costs associated with, and other costs being recovered in, various rate filings.

Taxes other than income taxes increased by \$1,151 or 7.8% as a result of the additional taxes associated with the AquaSource acquisition, an increase in state regulatory taxes, and an increase in capital stock tax due to an increase in the base on which the tax is applied.

Interest expense increased by \$2,728 or 9.0% primarily due to additional borrowings to finance on-going capital projects and acquisitions, offset partially by decreased interest rates on borrowings.

Allowance for funds used during construction ("AFUDC") increased by \$291 primarily due to an increase in the AFUDC rate as a result of tax-exempt borrowings for our multi-year infrastructure rehabilitation plan and an increase in the average balance of utility plant construction work in progress, associated with the AquaSource acquisition, to which AFUDC is applied.

Gain on sale of other assets totaled \$4,414 in the first nine months of 2003 and \$2,079 in the same period in 2002. The change is due to an increase in the gain on the sale of land realized of \$3,382 as compared to the same period in 2002 and a decrease in the gain on sale of marketable securities of \$1,047.

Our effective income tax rate was 40.0% in the first nine months of 2003 and 38.4% in the first nine months of 2002. The change was due to a decrease in our tax-deductible expenses.

Net income available to common stock for the first nine months increased by \$3,671 or 7.6%, in comparison to the same period in 2002 primarily as a result of the factors described above. On a diluted per share basis, earnings increased \$.04 or 5.7% reflecting the change in net income and a 1.2% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the additional shares issued through the shelf registration, dividend reinvestment plan, and employee stock purchase plan and equity compensation plan.

Analysis of Third Quarter of 2003 Compared to Third Quarter of 2002

Revenues for the quarter increased \$10,235 or 11.1% primarily due to additional water and sewer revenues associated with the larger customer base due to the AquaSource acquisition, and increased water rates granted to our Pennsylvania, Ohio, New Jersey and Maine operating subsidiaries, offset partially by reduced water consumption associated with the wet weather experienced in a significant portion of our service territory during the third quarter of 2003 and the revenues associated with a water system sold in 2002 of \$564. The unfavorable weather conditions resulted in lower water consumption by our customers in Pennsylvania, Ohio and New Jersey.

Operations and maintenance expenses increased by \$5,634 or 18.1% primarily due to the additional operating costs associated with acquisitions, principally the AquaSource acquisition, and increased postretirement benefits expenses, offset partially by reduced water production costs and lower bad debt expenses. The postretirement benefits expense increase resulted principally from higher pension costs.

Depreciation expense increased \$2,353 or 22.9% reflecting the utility plant placed in service since the third quarter of 2002, including the assets acquired through system acquisitions.

Amortization increased \$165 due to the AquaSource acquisition and the amortization of the costs associated with, and other costs being recovered in, various rate filings.

Taxes other than income taxes increased by \$820 or 17.3% due to the additional taxes associated with the AquaSource acquisition and an increase in state taxes.

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)

Interest expense increased by \$1,136 or 10.7% primarily due to additional borrowings to finance the AquaSource acquisition and capital projects, offset partially by decreased interest rates on borrowings due to refinancing of certain existing debt issues.

Allowance for funds used during construction ("AFUDC") increased by \$347 primarily due to an increase in the AFUDC rate as a result of tax-exempt borrowings for our multi-year infrastructure rehabilitation plan and an increase in the average balance of utility plant construction work in progress,

associated with the AquaSource acquisition, to which AFUDC is applied.

Gain on sale of other assets totaled \$4,194 in the third quarter of 2003 and \$321 in the third quarter of 2002. The change is due to an increase in the gain on the sale of land realized of \$3,871 and a slight increase in the gain on sale of marketable securities as compared to the third quarter of 2002.

Our effective income tax rate was 40.0% in the third quarter of 2003 and 37.7% in the third quarter of 2002. The change was due to a decrease in our tax-deductible expenses.

Net income available to common stock for the quarter increased by \$1,805 or 8.3%, in comparison to the same period in 2002 primarily as a result of the factors described above. On a diluted per share basis, earnings increased \$.02 or 6.5% reflecting the change in net income and a 4.1% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the additional shares issued in the 4,000,000 share offering in August 2003.

Recent Events

Environmental Regulation - Provision of water and wastewater services is subject to regulation under the federal Safe Drinking Water Act, the Clean Water Act and related state laws, and under state and federal regulations issued under these laws. These laws and regulations establish criteria and standards for drinking water and for discharges to surface waters. In addition, we are subject to federal and state laws and other regulations relating to solid waste disposal, dam safety and other operations. Capital expenditures and operating costs required as a result of water quality standards and environmental requirements have been generally recognized by state public utility commissions as appropriate for inclusion in establishing rates.

There are some environmental compliance issues at various water and wastewater facilities associated with the AquaSource acquisition that was completed on July 31, 2003. We estimate that the capital expenditures required to address these AquaSource compliance issues will be approximately \$65,000 over the next five years. Various operating subsidiaries that were acquired in the AquaSource acquisition are parties to agreements with regulatory agencies regarding environmental compliance. These agreements are intended to provide the regulators assurance that problems will be addressed, and they generally provide some protection to us from fines, penalties and other actions while corrective measures are being implemented. For the most part, the agreements were negotiated by AquaSource prior to the acquisition being completed, and we have assumed AquaSource's obligations under these agreements. In one case, PSC negotiated a compliance agreement to address conditions that developed prior to

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)

closing. Actions remain to be taken to resolve the compliance issues covered by these agreements. We are actively working directly with state environmental officials to implement or amend these agreements as necessary. The regulatory agencies may impose fines and penalties, with respect to existing compliance issues at the AquaSource operations, which are not expected to be material and, to the extent such fines and penalties arise from incidents that occurred prior to our purchase of the AquaSource operations, we may make an indemnity claim for such amounts against DQE, Inc. and AquaSource, Inc. under the purchase agreement.

Safe Drinking Water Act - The Safe Drinking Water Act establishes criteria and procedures for the Environmental Protection Agency to develop national quality

standards for drinking water. Regulations issued pursuant to the Safe Drinking Water Act and its amendments set standards on the amount of certain microbial and chemical contaminants and radionuclides allowable in drinking water. Current requirements under the Safe Drinking Water Act are not expected to have a material impact on our operations or financial condition as we have already made investments to meet existing water quality standards. We may, in the future, be required to change our method of treating drinking water at certain sources of supply if additional regulations become effective.

Issuance by the EPA of a rule regulating radon in tap water has been postponed repeatedly since 1991. Limits for radon would probably become effective 4 or 5 years after issuance of any such rule. We anticipate this rule may establish a radon level that would require treatment at a number of our wells. If the states in which we operate elect not to implement general radon reduction programs (Multi-Media Mitigation), then a lower limit for radon may apply and a larger number of wells would be affected. We anticipate that states will adopt Multi-Media Mitigation programs. The capital costs to comply with the anticipated limit are expected to total approximately \$1,000 or less than 1% of our typical annual capital expenditures.

The Safe Drinking Water Act provides for the regulation of radionuclides other than radon, such as radium and uranium. In December 2000, the EPA issued a final rule regulating certain radionuclides other than radon. The rule will become effective in December 2003, may require additional testing, and may require additional treatment at a limited number of wells. The cost of compliance is expected to be less than \$1,000. The impact of the new rulemaking is not expected to have a material impact on our results from operations or financial condition.

In order to eliminate or inactivate microbial organisms, the Surface Water Treatment Rule and the Interim Enhanced Surface Water Treatment Rule were issued by the EPA to improve disinfection or filtration of potable water. The EPA developed the Disinfectants-Disinfection By-products Rule to reduce consumers' exposure to disinfectants and by-products of the disinfection process. In 1998, the EPA issued new rules on disinfection and on surface water treatment. Groundwater and smaller surface water systems have until December 2003 to comply with the rules on disinfection and on surface water treatment. In the future we may be required to install filtration or other treatment for one surface water supply. The cost of this treatment, should it be required, is not expected to exceed \$5,000. Certain groundwater systems could be reclassified as being influenced by surface water. This may require additional treatment or the development of replacement sources of supply over time, and the cost for which is not expected to exceed \$5,000.

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 January 2001, the EPA issued a final rule for arsenic that lowers the limit on arsenic in potable water to a more stringent level effective by 2006, with a provision for further time extensions for small systems. Currently, several small well systems slightly exceed the new arsenic levels and may require additional treatment. The cost of maintaining compliance with this new rulemaking is not expected to exceed \$1,000 and will not have a material impact on our results from operations or financial condition.

In April 2000, the gasoline additive Methyl tert-Butyl Ether ("MtBE") was discovered in a production well in one of our operating subsidiaries at levels exceeding the state drinking water standard. The well was immediately taken out of service and alternate water supplies were obtained. The company responsible for the contamination has reimbursed us for a substantial portion of the expenses incurred to-date. We continue to pursue developing a long-term replacement supply and based on various studies we believe an alternate water

system will be needed. We have taken legal action seeking reimbursement for the costs associated with obtaining an alternate long-term water supply, and we expect to recover these costs from the responsible party.

Clean Water Act - The Clean Water Act regulates discharges from drinking water and wastewater treatment facilities into lakes, rivers, streams, and groundwater. We operate numerous water and wastewater facilities in a number of states. It is our policy to obtain and maintain all required permits and approvals for the discharge from these water and wastewater facilities, and to comply with all conditions of those permits and other regulatory requirements. A program is in place to monitor facilities for compliance with permitting, monitoring and reporting for wastewater discharges. From time to time, violations may occur which may result in fines. As described previously, various operating subsidiaries that were acquired in the AquaSource acquisition had entered into agreements, prior to the acquisition being completed, to address compliance issues. Based on AquaSource's previous experience with these agreements, penalties or fines that may be imposed under these agreements are not expected to have a material impact on our results of operations or financial condition, and the required costs to comply with the agreements previously cited are expected to be recoverable in rates.

Solid Waste Disposal - The handling and disposal of residuals and solids from water and wastewater treatment facilities are governed by state and federal laws and regulations. A program is in place to monitor our facilities for compliance with regulatory requirements, and we do not currently anticipate any major expenditures in connection with the management and disposal of residuals and solids from our water and wastewater facilities in the future.

Economic Regulation - The City of Fort Wayne, Indiana is considering the acquisition, by eminent domain or otherwise, of a portion of the utility assets of one of the operating subsidiaries that we acquired in connection with the AquaSource acquisition in July 2003. The system represents approximately 7,500 customers or approximately 1% of our total customer base. We are actively discussing this matter with the City of Fort Wayne officials. We believe that our Indiana operating subsidiary is entitled to fair market value for its assets.

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)

Pension Plan - During 2002, the fair market value of our pension plan assets declined due to negative equity market performance and the decrease of the discount rate resulting in an increase in pension liabilities. As a result, we recorded an additional minimum liability of \$4,731 on our consolidated balance sheet as of December 31, 2002. The additional minimum liability equaled the excess of the accumulated benefit obligation over the fair value of the plan assets and resulted in the establishment of a regulatory asset, as we anticipate recovery of the future, increased pension expense through customer rates.

During the first nine months of 2003, market interest rates have declined and we will likely use a lower discount rate which would have the effect of increasing our pension liabilities. As a result, we will likely be required to recognize an increase to the additional minimum liability at December 31, 2003. The amount of the increased additional minimum liability can not be determined at this time as it is dependent on the asset returns through the fourth quarter of 2003 and the assumed discount rate at the end of the fourth quarter.

Name Change - We have announced our intention to change our name to Aqua America, Inc. to reflect our position as the largest U.S.-based publicly-traded water utility. The name change is expected to become effective in mid-January 2004 at which time we will also change our ticker symbol on the New York Stock Exchange and the Philadelphia Stock Exchange from "PSC" to "WTR".

Impact of Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") approved Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. When the liability is initially recognized, the carrying amount of the related long-lived asset is increased by the same amount. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, we may settle the obligation for its recorded amount, or an alternative amount, thereby incurring a gain or loss upon settlement. The adoption of this statement as required on January 1, 2003 did not have a material impact on our results of operations or financial position.

In April 2002, the FASB approved SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145, among other things, rescinds SFAS No. 4, which required all gains and losses from the extinguishment of debt to be classified as an extraordinary item and amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. We adopted this statement in the first quarter of 2003 and it did not have a material impact on our results of operations or financial position.

In June 2002, the FASB approved SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement replaces the previous accounting guidance provided in Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. We adopted this standard in the first quarter of 2003 and it did not have a material impact on our results of operations or financial position.

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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)

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of SFAS No. 5, 57 and 107 and rescission of SFAS No. 34. This interpretation clarifies the requirements of FASB Statement No. 5, "Accounting for Contingencies" relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure provisions of the interpretation are effective for financial statements of periods ending after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. We adopted the accounting provisions of this standard in the first quarter of 2003 and it did not have a material impact on our results of operations or financial position.

In April 2003, the FASB approved SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. We believe the adoption of this standard will have no effect on our results of operations or financial position. As of September 30, 2003, we had no derivative instruments or hedging activities.

In May 2003, the FASB approved SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150

establishes standards for classifying and measuring as liabilities certain financial instruments with characteristics of both liabilities and equity. The standard is effective for financial instruments entered into or modified after May 31, 2003, and is otherwise effective July 1, 2003. This statement did not have a material impact on our results of operations or financial position.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest and equity prices. There have been no significant changes in our exposure to market risks since December 31, 2002. Refer to Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2002 for additional information.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 their properties is the subject that are expected to have a material effect on our financial position, results of operations or cash flows.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
4.27	Note Purchase Agreement among the note purchasers and Philadelphia Suburban Corporation, dated July 31, 2003.
4.28	Credit Agreement dated as of July 31, 2003, between Philadelphia Suburban Corporation and PNC Bank, National Association
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934.
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934.
32.1	Certification of Chief Executive Officer, pursuant 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.

(b) Reports on Form 8-K

Current Report on Form 8-K furnished on August 6, 2003, responding to Item 9, Regulation FD Disclosure. (Related to the Company's issuance of a press release on August 6, 2003 announcing its second quarter 2003 earnings).

Current Report on Form 8-K filed on August 14, 2003, responding to Item 2, Acquisition or Disposition of Assets. (Related to the Company's completion of its acquisition of all of the outstanding common stock of four operating water and wastewater subsidiaries of AquaSource, Inc., including selected, integrated operating and maintenance contracts and related assets for \$195 million in cash).

Current Report on Form 8-K filed on August 19, 2003, responding to Item 5, Other Events. (Related to the Company entering into an underwriting agreement on August 18, 2003 relating to the issuance of up to 4,600,000 shares of PSC common stock).

SIGNATURES

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

November 13, 2003

PHILADELPHIA SUBURBAN CORPORATION

Registrant

NICHOLAS DEBENEDICTIS

Nicholas DeBenedictis
Chairman and President

DAVID P. SMELTZER

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

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PHILADELPHIA SUBURBAN CORPORATION

\$135,000,000 4.87% Senior Notes
due July 31, 2023

NOTE PURCHASE AGREEMENT

DATED AS OF JULY 31, 2003

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PHILADELPHIA SUBURBAN CORPORATION
762 W. LANCASTER AVENUE
BRYN MAWR, PENNSYLVANIA 19010

4.87% SENIOR NOTES DUE JULY 31, 2023

Dated as of
July 31, 2003

TO THE PURCHASERS LISTED IN
THE ATTACHED SCHEDULE A:

Ladies and Gentlemen:

PHILADELPHIA SUBURBAN CORPORATION, a Pennsylvania corporation (the "Company"), agrees with the Purchasers listed in the attached Schedule A (the "Purchasers") to this Note Purchase Agreement (this "Agreement") as follows:

SECTION 1. AUTHORIZATION OF NOTES.

The Company will authorize the issue and sale of \$135,000,000 aggregate

principal amount of its 4.87% Senior Notes due July 31, 2023 (the "Notes"; such term shall also include any such notes issued in substitution therefor pursuant to Section 13 of this Agreement). The Notes shall be substantially in the forms set out in Exhibit 1 with such changes therefrom, if any, as may be approved by the Purchasers and the Company. Certain capitalized terms used in this Agreement are defined in Schedule B; references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

SECTION 2. SALE AND PURCHASE OF NOTES.

Section 2.1. Notes. Subject to the terms and conditions of this Agreement, the Company will issue and sell to each Purchaser and each Purchaser will purchase from the Company, at the Closing provided for in Section 3, Notes in the principal amount specified opposite such Purchaser's name in Schedule A at the purchase price of 100% of the principal amount thereof. The obligations of each Purchaser hereunder are several and not joint obligations and each Purchaser shall have no obligation and no liability to any Person for the performance or nonperformance by any other Purchaser hereunder.

SECTION 3. CLOSING.

The sale and purchase of the Notes to be purchased by each Purchaser shall occur at the offices of Chapman and Cutler LLP, 111 West Monroe Street, Chicago, Illinois 60603 at 10:00 a.m. Chicago time, at a closing (the "Closing") on July 31, 2003 or on such other Business Day thereafter on or prior to August 8, 2003 as may be agreed upon by the Company and the Purchasers. At the Closing the Company will deliver to each Purchaser the Notes to be purchased by such Purchaser in the form of a single Note (or such greater number of Notes in denominations of at least \$100,000 as such Purchaser may request) dated the date of the Closing and registered in such Purchaser's name (or in the name of such Purchaser's nominee), against delivery by such Purchaser to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for the account of the Company to account number 8541854208, account name Philadelphia Suburban Corporation, at PNC Bank, N.A., Philadelphia, Pennsylvania, ABA Number 031-000053. If at the Closing the Company shall fail to tender such Notes to any Purchaser as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to any Purchaser's satisfaction, such Purchaser shall, at such Purchaser's election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Purchaser may have by reason of such failure or such nonfulfillment.

SECTION 4. CONDITIONS TO CLOSING.

The obligation of each Purchaser to purchase and pay for the Notes to be sold to such Purchaser at the Closing is subject to the fulfillment to such Purchaser's satisfaction, prior to or at the Closing, of the following conditions:

Section 4.1. Representations and Warranties of the Company. The representations and warranties of the Company in this Agreement shall be correct when made and at the time of the Closing.

Section 4.2. Performance; No Default. The Company shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by the Company prior to or at the Closing, and after giving effect to the issue and sale of the Notes (and the application of the proceeds thereof as contemplated by Section 5.14), no Default or Event of Default shall have occurred and be continuing.

Section 4.3. Compliance Certificates.

(a) Officer's Certificate of the Company. The Company shall have delivered to such Purchaser an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in Sections 4.1, 4.2 and 4.9 have been fulfilled.

(b) Secretary's Certificate of the Company. The Company shall have delivered to such Purchaser a certificate certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of the Notes and this

Agreement.

Section 4.4. Opinions of Counsel. Such Purchaser shall have received opinions in form and substance satisfactory to such Purchaser, dated the date of the Closing (a) from Roy H. Stahl, Esq., General Counsel of the Company, covering the matters set forth in Exhibit 4.4(a) and covering such other matters incident to the transactions contemplated hereby as such Purchaser or such Purchaser's counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to such Purchaser), (b) from Dilworth Paxson, LLP, special counsel to the Company, covering the matters set forth in Exhibit 4.4(b) and covering such other matters incident to the transactions contemplated hereby as such Purchaser or such Purchaser's counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to such Purchaser), and (c) from Chapman and Cutler LLP, the Purchasers' special counsel in connection with such transactions, substantially in the form set forth in Exhibit 4.4(c) and covering such other matters incident to such transactions as such Purchaser may reasonably request.

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Section 4.5. Purchase Permitted by Applicable Law, Etc. On the date of the Closing each purchase of Notes shall (a) be permitted by the laws and regulations of each jurisdiction to which each Purchaser is subject, without recourse to provisions (such as Section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (b) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (c) not subject any Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by any Purchaser, such Purchaser shall have received an Officer's Certificate certifying as to such matters of fact as such Purchaser may reasonably specify to enable such Purchaser to determine whether such purchase is so permitted.

Section 4.6. Related Transactions. The Company shall have consummated the sale of the entire principal amount of the Notes scheduled to be sold on the date of Closing pursuant to this Agreement.

Section 4.7. Payment of Special Counsel Fees. Without limiting the provisions of Section 15.1, the Company shall have paid on or before the Closing, the reasonable fees, reasonable charges and reasonable disbursements of the Purchasers' special counsel referred to in Section 4.4(c) to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing.

Section 4.8. Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for the Notes.

Section 4.9. Changes in Corporate Structure. The Company shall not have changed its jurisdiction of incorporation or, except as reflected in Schedule 4.9, been a party to any merger or consolidation and shall not have succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in Schedule 5.5.

Section 4.10. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to such Purchaser and such Purchaser's special counsel, and such Purchaser and such Purchaser's special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or such Purchaser's special counsel may reasonably request.

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SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to each Purchaser that:

Section 5.1. Organization; Power and Authority. The Company is a

corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement and the Notes and to perform the provisions hereof and thereof.

Section 5.2. Authorization, Etc. This Agreement and the Notes have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure. The Company, through its agent, PNC Capital Markets, Inc., has delivered to each Purchaser a copy of a Private Placement Memorandum, dated June, 2003 (the "Memorandum"), relating to the transactions contemplated hereby. The Memorandum fairly describes, in all material respects, the general nature of the business and principal properties of the Company and its Subsidiaries. This Agreement (excluding the representations of the Purchasers in Section 6), the Memorandum, the documents, certificates or other writings delivered to the Purchasers by or on behalf of the Company in connection with the transactions contemplated hereby and the financial statements listed in Schedule 5.5, taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Since December 31, 2002, there has been no change in the financial condition, operations, business or properties of the Company or any of its Subsidiaries except changes that individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect. There is no fact known to the Company that could reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the Memorandum or in the other documents, certificates and other writings delivered to each Purchaser by or on behalf of the Company specifically for use in connection with the transactions contemplated hereby.

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Section 5.4. Organization and Ownership of Shares of Subsidiaries. (a) Schedule 5.4 contains (except as noted therein) a complete and correct list of the Company's Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien (except as otherwise disclosed in Schedule 5.4).

(c) Each Subsidiary identified in Schedule 5.4 is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

Section 5.5. Financial Statements. The Company has delivered to each Purchaser copies of the financial statements of the Company and its Subsidiaries listed on Schedule 5.5. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the

respective dates specified in such financial statements and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments).

Section 5.6. Compliance with Laws, Other Instruments, Etc. The execution, delivery and performance by the Company of this Agreement and the Notes will not (a) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other Material agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (b) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary, or (c) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary, except for any such default, breach, contravention or violation which would not reasonably be expected to have a Material Adverse Effect.

Section 5.7. Governmental Authorizations, Etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement or the Notes.

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Section 5.8. Litigation; Observance of Statutes and Orders. (a) There are no actions, suits or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is in default under any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws) of any Governmental Authority, which default or violation, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

Section 5.9. Taxes. The Company and its Subsidiaries have filed all income tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments payable by them to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (a) the amount of which is not individually or in the aggregate Material or (b) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The charges, accruals and reserves on the books of the Company and its Subsidiaries in respect of federal, state or other taxes for all fiscal periods are adequate. The federal income tax liabilities of the Company and its Subsidiaries have been determined by an audit by the Internal Revenue Service for the fiscal year ended December 31, 1999 and all amounts owing in respect of such audit have been paid.

Section 5.10. Title to Property; Leases. The Company and its Subsidiaries have good and sufficient title to their respective Material properties, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement, except for those defects in title and Liens that, individually or in the aggregate, would not have a Material Adverse Effect. All Material leases are valid and subsisting and are in full force and effect in all material respects.

Section 5.11. Licenses, Permits, Etc. Except as disclosed in Schedule 5.11, the Company and its Subsidiaries own or possess all licenses, permits, franchises, certificates of conveyance and necessity, authorizations, patents,

copyrights, service marks, trademarks and trade names, or rights thereto, that are Material, without known conflict with the rights of others except for those conflicts, that, individually or in the aggregate, would not have a Material Adverse Effect.

Section 5.12. Compliance with ERISA. (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in Section 3 of ERISA), and no event, transaction or condition has occurred or exists that would reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to Section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be individually or in the aggregate Material.

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(b) The present value of the accrued benefit liabilities under each of the Plans (other than Multiemployer Plans), determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities. The term "benefit liabilities" has the meaning specified in section 4001 of ERISA and the terms "current value" and "present value" have the meaning specified in Section 3 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred any withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under Section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected post-retirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of Section 406 of ERISA or in connection with which a tax could be imposed pursuant to Section 4975(c)(1)(A)-(D) of the Code. The representation by the Company in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of each Purchaser's representation in Section 6.2 as to the sources of the funds to be used to pay the purchase price of the Notes to be purchased by such Purchaser.

Section 5.13. Private Offering by the Company. Neither the Company nor anyone acting on the Company's behalf has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than the Purchasers and not more than 24 other Institutional Investors, each of which has been offered the Notes in connection with a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Notes to the registration requirements of Section 5 of the Securities Act.

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Section 5.14. Use of Proceeds; Margin Regulations. The Company will apply the proceeds of the sale of the Notes for general corporate purposes of the Company and its Subsidiaries (including the repayment of Debt of the Company and its Subsidiaries) and to finance the acquisition of certain subsidiaries of AquaSource, Inc. No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker

or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin stock does not constitute more than 2% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 2% of the value of such assets. As used in this Section, the terms "margin stock" and "purpose of buying or carrying" shall have the meanings assigned to them in said Regulation U.

Section 5.15. Existing Debts. Except as described therein, Schedule 5.15 sets forth a complete and correct list of all outstanding Debt of the Company and its Subsidiaries as of June 30, 2003, since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Debt of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Debt of the Company or such Subsidiary, and no event or condition exists with respect to any Debt of the Company or any Subsidiary, the outstanding principal amount of which exceeds \$5,000,000, that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Debt to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

Section 5.16. Foreign Assets Control Regulations, Etc. Neither the sale of the Notes by the Company hereunder nor its use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto or is in violation of any federal statute or Presidential Executive Order, including without limitation Executive Order 13224 66 Fed. Reg. 49079 (September 25, 2001) (Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit or Support Terrorism).

Section 5.17. Status under Certain Statutes. Neither the Company nor any Subsidiary is an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, or is subject to regulation under the Public Utility Holding Company Act of 1935, as amended, the ICC Termination Act of 1995, as amended, or the Federal Power Act, as amended.

Section 5.18. Environmental Matters. Neither the Company nor any Subsidiary has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them, or other assets, alleging damage to the environment or any violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed to each Purchaser in writing:

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(a) neither the Company nor any Subsidiary has knowledge of any facts which would give rise to any claim, public or private, for violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties or to other assets now or formerly owned, leased or operated by any of them or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(b) neither the Company nor any of its Subsidiaries has stored any Hazardous Materials on real properties now or formerly owned, leased or operated by any of them or has disposed of any Hazardous Materials in each case in a manner contrary to any Environmental Laws and in any manner that could reasonably be expected to result in a Material Adverse Effect; and

(c) all buildings on all real properties now owned, leased or operated by the Company or any of its Subsidiaries are in compliance with applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

SECTION 6. REPRESENTATIONS OF THE PURCHASER.

Section 6.1. Purchase for Investment. Each Purchaser represents that it is purchasing the Notes for its own account or for one or more separate accounts maintained by it or for the account of one or more pension or trust funds and

not with a view to the distribution thereof, provided that the disposition of such Purchaser's or such pension or trust funds' property shall at all times be within such Purchaser's or such pension or trust funds' control. Each Purchaser understands that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Notes.

Section 6.2. Source of Funds. Each Purchaser represents that at least one of the following statements is an accurate representation as to each source of funds (a "Source") to be used by it to pay the purchase price of the Notes to be purchased by it hereunder:

(a) the Source is an "insurance company general account" within the meaning of Department of Labor Prohibited Transaction Exemption ("PTE") 95-60 (issued July 12, 1995) and there is no employee benefit plan, treating as a single plan all plans maintained by the same employer or employee organization, with respect to which the amount of the general account reserves and liabilities for all contracts held by or on behalf of such plan, exceeds ten percent (10%) of the total reserves and liabilities of such general account (exclusive of separate account liabilities) plus surplus, as set forth in the NAIC Annual Statement for such Purchaser most recently filed with such Purchaser's state of domicile; or

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(b) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 (issued January 29, 1990), or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 (issued July 12, 1991) and, except as such Purchaser prior to the execution and delivery of this Agreement has disclosed to the Company in writing pursuant to this paragraph (b), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(c) the Source constitutes assets of an "investment fund" (within the meaning of Part V of the QPAM Exemption) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this paragraph (c) prior to the execution and delivery of this Agreement; or

(d) the Source is a governmental plan; or

(e) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which prior to the execution and delivery of this Agreement has been identified to the Company in writing pursuant to this paragraph (e); or

(f) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA; or

(g) the Source is an insurance company separate account maintained solely in connection with the fixed contractual obligations of the insurance company under which the amounts payable, or credited, to any employee benefit plan (or its related trust) and to any participant or beneficiary of such plan (including any annuitant) are not affected in any manner by the investment performance of the

separate account.

If any Purchaser or any subsequent transferee of the Notes indicates that such Purchaser or such transferee is relying on any representation contained in paragraph (b), (c) or (e) above, the Company shall deliver on the date of issuance of such Notes and on the date of any applicable transfer a certificate, which shall either state that (i) it is neither a party in interest nor a "disqualified person" (as defined in Section 4975(e)(2) of the Code), with respect to any plan identified pursuant to paragraphs (b) or (e) above, or (ii) with respect to any plan, identified pursuant to paragraph (c) above, neither it nor any "affiliate" (as defined in Section V(c) of the QPAM Exemption) has at such time, and during the immediately preceding one year, exercised the authority to appoint or terminate said QPAM as manager of any plan identified in writing pursuant to paragraph (c) above or to negotiate the terms of said QPAM's management agreement on behalf of any such identified plan. As used in this Section 6.2, the terms "employee benefit plan", "governmental plan", "party in interest" and "separate account" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

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SECTION 7. INFORMATION AS TO COMPANY.

Section 7.1. Financial and Business Information. The Company shall deliver to each holder of Notes that is an Institutional Investor:

(a) Quarterly Statements -- within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of,

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, provided that delivery within the time period specified above of copies of the Company's Quarterly Report on Form 10-Q prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(a);

(b) Annual Statements -- within 120 days after the end of each fiscal year of the Company, duplicate copies of,

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the

circumstances, provided that the delivery within the time period specified above of the Company's Annual Report on Form 10-K for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act) prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(b);

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(c) SEC and Other Reports -- promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to public securities holders generally, and (ii) each regular or periodic report, each registration statement that shall have become effective (without exhibits except as expressly requested by such holder), and each final prospectus and all amendments thereto filed by the Company or any Subsidiary with the Securities and Exchange Commission;

(d) Notice of Default or Event of Default -- promptly, and in any event within five days after a Responsible Officer becomes aware of the existence of any Default or Event of Default, a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) ERISA Matters -- promptly, and in any event within five days after a Responsible Officer becomes aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in Section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date thereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) Any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the imposition of a penalty or excise tax under the provisions of the Code relating to employee benefit plans, or the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, would reasonably be expected to have a Material Adverse Effect;

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(f) Notices from Governmental Authority -- promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary from any federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect; and

(g) Requested Information -- with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations hereunder and under the Notes as from time to time may be reasonably requested by any such holder of Notes.

In addition to the foregoing, in the event that one or more Unrestricted Subsidiaries shall either (i) own more than 10% of the total consolidated assets of the Company and its Subsidiaries, or (ii) account for more than 10% of the consolidated gross revenues of the Company and its Subsidiaries, determined in each case in accordance with GAAP, then, within the respective periods provided in Section 7.1(a) and (b) above, the Company shall deliver to each holder of Notes that is an Institutional Investor, unaudited financial statements of the character and for the dates and periods as in said Sections 7.1(a) and (b) covering such group of Unrestricted Subsidiaries (on a consolidated basis), together with a consolidating statement reflecting eliminations or adjustments required to reconcile the financial statements of such group of Unrestricted Subsidiaries to the financial statements delivered pursuant to Sections 7.1(a) and (b).

Section 7.2. Officer's Certificate. Each set of financial statements delivered to a holder of Notes pursuant to Section 7.1(a) or Section 7.1(b) hereof shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) Covenant Compliance -- the information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Section 10.1, Section 10.2(k), Section 10.4, Section 10.5, Section 10.6(k) and Section 10.10 hereof, inclusive, during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence); and

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(b) Event of Default -- a statement that such officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

Section 7.3. Inspection. The Company shall permit the representatives of each holder of Notes that is an Institutional Investor:

(a) No Default -- if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Restricted Subsidiary, all at such reasonable times during normal business hours and as often as may be reasonably requested in writing; and

(b) Default -- if a Default or Event of Default then exists, at the expense of the Company, to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

SECTION 8. PAYMENT OF THE NOTES.

Section 8.1. Required Prepayments. (a) The Company will prepay the principal of the Notes at par and without payment of the Make-Whole Amount or

any premium on the dates and in the amounts hereinafter set forth:

PAYMENT DATE	PRINCIPAL AMOUNT TO BE PREPAID
July 31, 2010	\$27,000,000
July 31, 2013	\$21,600,000
July 31, 2014	\$27,000,000
July 31, 2016	\$10,800,000
July 31, 2017	\$10,800,000
July 31, 2018	\$10,800,000
July 31, 2020	\$16,200,000

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The entire unpaid principal amount of the Notes shall become due and payable on July 31, 2023.

(b) Upon any partial prepayment of the Notes pursuant to Section 8.2 or purchase of the Notes pursuant to Section 8.5 or Section 8.7, the principal amount of each required prepayment of the Notes, becoming due under this Section 8.1 on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of the Notes, is reduced as a result of such prepayment or purchase.

Section 8.2. Optional Prepayments with Make-Whole Amount. The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes, in an amount not less than 10% of the aggregate principal amount of the Notes then outstanding in the case of a partial prepayment, at 100% of the principal amount so prepaid, together with interest accrued thereon to the date of such prepayment, plus the Make-Whole Amount determined for the prepayment date with respect to such principal amount. The Company will give each holder of Notes written notice of each optional prepayment under this Section 8.2 not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date, the aggregate principal amount of the Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with Section 8.3), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

Section 8.3. Allocation of Partial Prepayments. In the case of each partial prepayment of the Notes, the principal amount of the Notes to be prepaid shall be allocated among all of the Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

Section 8.4. Maturity; Surrender, Etc. In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

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Section 8.5. Purchase of Notes. The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes except (a) upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes or (b) pursuant to an offer to purchase made by the Company or an Affiliate pro rata to the holders of all Notes at the time outstanding upon the same terms and conditions. Any such offer shall provide each holder with

sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least 15 Business Days. If the holders of more than 10% of the principal amount of the Notes then outstanding accept such offer, the Company shall promptly notify the remaining holders of such fact and the expiration date for the acceptance by holders of Notes of such offer shall be extended by the number of days necessary to give each such remaining holder at least 10 Business Days from its receipt of such notice to accept such offer. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.6. Make-Whole Amounts. The term "Make-Whole Amount" means with respect to a Note an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to a Note, the principal of such Note that is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Note, 0.50% plus the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "PX-1" on the Bloomberg Financial Market Screen (or such other display as may replace "PX-1" on the Bloomberg Financial Market Screen) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly on a straight line basis between (1) the actively traded U.S. Treasury security with the maturity closest to and greater than the Remaining Average Life and (2) the actively traded U.S. Treasury security with the maturity closest to and less than the Remaining Average Life.

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"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Note, all payments of such Called Principal and

interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 8.2 or 12.1.

"Settlement Date" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

Section 8.7. Change in Control.

(a) Notice of Change in Control or Control Event. The Company will, within five Business Days after any Responsible Officer has knowledge of the occurrence of any Change in Control or Control Event, give written notice of such Change in Control or Control Event to each holder of Notes unless notice in respect of such Change in Control (or the Change in Control contemplated by such Control Event) shall have been given pursuant to subparagraph (b) of this Section 8.7. If a Change in Control has occurred, such notice shall contain and constitute an offer to prepay Notes as described in subparagraph (c) of this Section 8.7 and shall be accompanied by the certificate described in subparagraph (g) of this Section 8.7.

(b) Condition to Company Action. The Company will not take any action that consummates or finalizes a Change in Control unless (i) at least 20 days prior to such action it shall have given to each holder of Notes written notice containing and constituting an offer to prepay Notes as described in subparagraph (c) of this Section 8.7, accompanied by the certificate described in subparagraph (g) of this Section 8.7, and (ii) contemporaneously with such action, it prepays all Notes required to be prepaid in accordance with this Section 8.7.

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(c) Offer to Prepay Notes. The offer to prepay Notes contemplated by subparagraphs (a) and (b) of this Section 8.7 shall be an offer to prepay, in accordance with and subject to this Section 8.7, all, but not less than all, the Notes held by each holder (in this case only, "holder" in respect of any Note registered in the name of a nominee for a disclosed beneficial owner shall mean such beneficial owner) on a date specified in such offer (the "Proposed Prepayment Date"). If such Proposed Prepayment Date is in connection with an offer contemplated by subparagraph (a) of this Section 8.7, such date shall be not less than 20 days and not more than 60 days after the date of such offer (if the Proposed Prepayment Date shall not be specified in such offer, the Proposed Prepayment Date shall be the 30th day after the date of such offer).

(d) Acceptance/Rejection. A holder of Notes may accept the offer to prepay made pursuant to this Section 8.7 by causing a notice of such acceptance to be delivered to the Company at least 5 days prior to the Proposed Prepayment Date. A failure by a holder of Notes to respond to an offer to prepay made pursuant to this Section 8.7 shall be deemed to constitute acceptance of such offer by such holder.

(e) Prepayment. Prepayment of the Notes to be prepaid pursuant to this Section 8.7 shall be at 100% of the principal amount of such Notes together with interest on such Notes accrued to the date of prepayment. On the Business Day preceding the date of prepayment, the Company shall deliver to each holder of Notes being prepaid a statement showing the amount due in connection with such prepayment and setting forth the details of the computation of such amount. The prepayment shall be made on the Proposed Prepayment Date except as provided in subparagraph (f) of this Section 8.7.

(f) Deferral Pending Change in Control. The obligation of the Company to prepay Notes pursuant to the offers required by subparagraph (c) and accepted in accordance with subparagraph (d) of this Section 8.7 is subject to the occurrence of the Change in Control in respect of which such offers and acceptances shall have been made. In the event that such Change in Control does not occur on the Proposed Prepayment Date in respect thereof, the prepayment shall be deferred until and shall be made on the date on which such Change in Control occurs. The Company shall keep each holder of Notes reasonably and

timely informed of (i) any such deferral of the date of prepayment, (ii) the date on which such Change in Control and the prepayment are expected to occur, and (iii) any determination by the Company that efforts to effect such Change in Control have ceased or been abandoned (in which case the offers and acceptances made pursuant to this Section 8.7 in respect of such Change in Control shall be deemed rescinded).

(g) Officer's Certificate. Each offer to prepay the Notes pursuant to this Section 8.7 shall be accompanied by a certificate, executed by a Senior Financial Officer of the Company and dated the date of such offer, specifying: (i) the Proposed Prepayment Date; (ii) that such offer is made pursuant to this Section 8.7; (iii) the principal amount of each Note offered to be prepaid; (iv) the interest that would be due on each Note offered to be prepaid, accrued to the Proposed Prepayment Date; (v) that the conditions of this Section 8.7 have been fulfilled; (vi) in reasonable detail, the nature and date of the Change in Control; and (vii) that the failure to respond to such offer of prepayment shall constitute acceptance of such offer.

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(h) "Change in Control" Defined. "Change in Control" means each and every issue, sale or other disposition of shares of stock of the Company which results in any person (as such term is used in section 13(d) and section 14(d)(2) of the Exchange Act) or related persons constituting a group (as such term is used in Rule 13d-5 under the Exchange Act), becoming the "beneficial owners" (as such term is used in Rule 13d-3 under the Exchange Act) as in effect on the date of the Closing), directly or indirectly, of more than 50% of the total voting power of all classes then outstanding of the Company's voting stock.

(i) "Control Event" Defined. "Control Event" means:

(a) the execution by the Company or any of its Subsidiaries or Affiliates of any agreement or binding letter of intent with respect to any proposed transaction or event or series of transactions or events which, individually or in the aggregate, could reasonably be expected to result in a Change in Control;

(b) the execution of any written agreement which, when fully performed by the parties thereto, would result in a Change in Control; or

(c) the making of any written offer by any person (as such term is used in section 13(d) and section 14(d)(2) of the Exchange Act as in effect on the date of the Closing) or related persons constituting a group (as such term is used in Rule 13d-5 under the Exchange Act as in effect on the date of the Closing) to the holders of the common stock of the Company, which offer, if accepted by the requisite number of holders, would result in a Change in Control unless such offer is rejected or expires pursuant to its terms prior to the date on which notice of such Change in Control is required to be delivered pursuant to Section 8.7(a).

SECTION 9. AFFIRMATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

Section 9.1. Compliance with Law. The Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, certificates of convenience and necessity, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, certificates of convenience and necessity, franchises and other governmental authorizations would not reasonably be expected, individually or in the aggregate, to have a materially adverse effect on the business, operations, affairs, financial condition, properties or assets of the Company and its Subsidiaries taken as a whole.

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Section 9.2. Insurance. The Company will, and will cause each of its Subsidiaries to, maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

Section 9.3. Maintenance of Properties. The Company will, and will cause each of its Subsidiaries to, maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, provided that this Section shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company has concluded that such discontinuance would not, individually or in the aggregate, have a materially adverse effect on the business, operations, affairs, financial condition, properties or assets of the Company and its Subsidiaries taken as a whole.

Section 9.4. Payment of Taxes. The Company will, and will cause each of its Subsidiaries to, file all income tax or similar tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies payable by any of them, to the extent such taxes and assessments have become due and payable and before they have become delinquent; provided that neither the Company nor any Subsidiary need pay any such tax or assessment if (i) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary or (ii) the nonpayment of all such taxes and assessments in the aggregate would not reasonably be expected to have a materially adverse effect on the business, operations, affairs, financial condition, properties or assets of the Company and its Subsidiaries taken as a whole.

Section 9.5. Corporate Existence, Etc. Subject to Sections 10.3 and 10.4, the Company will at all times preserve and keep in full force and effect its corporate existence, and will at all times preserve and keep in full force and effect the corporate existence of each of its Restricted Subsidiaries (unless merged into the Company or a Wholly-Owned Subsidiary) and all rights and franchises of the Company and its Restricted Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise would not, individually or in the aggregate, have a materially adverse effect on the business, operations, affairs, financial condition, properties or assets of the Company and its Restricted Subsidiaries taken as a whole.

Section 9.6. Designation of Subsidiaries. The Company may from time to time cause any Subsidiary acquired after the date of this Agreement to be designated as an Unrestricted Subsidiary or any Unrestricted Subsidiary to be designated as a Subsidiary, provided, however, that at the time of such designation and immediately after giving effect thereto, no Default or Event of Default would exist under the terms of this Agreement, and provided, further, that once a Restricted Subsidiary has been designated an Unrestricted Subsidiary, it shall not thereafter be redesignated as a Restricted Subsidiary on more than one occasion. Within ten (10) days following any designation described above, the Company will deliver to you a notice of such designation accompanied by a certificate signed by a Senior Financial Officer of the Company certifying compliance with all requirements of this Section 9.6 and setting forth all information required in order to establish such compliance.

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SECTION 10. NEGATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

Section 10.1. Limitation on Debt. The Company will not permit Consolidated Debt (determined as of the last day of each fiscal quarter) to exceed 65% of Consolidated Total Capitalization as of such date.

Section 10.2. Limitation on Liens. The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly create, incur, assume or permit to exist (upon the happening of a contingency or otherwise) any Lien on or with respect to any property or asset (including, without limitation, any document or instrument in respect of goods or accounts receivable) of the Company or any such Restricted Subsidiary, whether now owned or held or hereafter acquired, or any income or profits therefrom, or assign or otherwise convey any right to receive income or profits, except:

(a) Liens for taxes, assessments or other governmental charges that are not yet due and payable or the payment of which is not at the time required by Section 9.4; provided, any such tax, assessment or other governmental charge shall be paid prior to the commencement of any proceedings to foreclose any Lien related thereto;

(b) any attachment or judgment Lien, unless the judgment it secures shall not, within 60 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall not have been discharged within 60 days after the expiration of any such stay;

(c) Liens incidental to the conduct of business or the ownership of properties and assets (including landlords', carriers', warehousemen's, mechanics', materialmen's and other similar Liens for sums not yet due and payable or which are being contested in good faith by appropriate proceedings diligently conducted) and Liens to secure the performance of bids, tenders, leases, or trade contracts, or to secure statutory obligations (including obligations under workers compensation, unemployment insurance and other social security legislation), surety or appeal bonds or other Liens incurred in the ordinary course of business and not in connection with the borrowing of money;

(d) leases or subleases granted to others, zoning restrictions, easements, rights-of-way, restrictions and other similar charges or encumbrances, in each case incidental to the ownership of property or assets or the ordinary conduct of the business of the Company or any of its Restricted Subsidiaries, provided that such Liens do not, materially impair the use of such property or materially detract from the value of such property and which are not violated in any material respect by the existing or proposed use by the Company and its Subsidiaries of the properties subject to such Liens;

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(e) Liens securing Debt of a Restricted Subsidiary to the Company or to a Wholly-Owned Restricted Subsidiary;

(f) Liens created under indentures, mortgages and deeds of trust securing Debt of Restricted Subsidiaries;

(g) Liens incurred after the date of Closing (including Liens of Capital Lease Obligations) given to secure the payment of all or any portion of the purchase price incurred in connection with the acquisition, construction or improvement of property (other than accounts receivable) useful and intended to be used in carrying on the business of the Company or a Restricted Subsidiary, including Liens existing on such property at the time of acquisition or construction thereof, or Liens incurred within 180 days of such acquisition or the completion of such construction or improvement, provided that (i) the Lien shall attach solely to the property acquired, purchased, constructed or improved and, if required by the terms of the instrument originally creating such Lien, other property which is an improvement to or is acquired for specific use in connection with such acquired property; (ii) at the time of acquisition, construction or improvement of such property, the aggregate amount remaining unpaid on all Debt secured by Liens on such property, whether or not assumed by the Company or a Restricted Subsidiary, shall not exceed the lesser of (y) the cost of such acquisition, construction or improvement or (z) the Fair Market Value of such property; and (iii) at the time of such incurrence and after giving effect thereto, no Default or Event of Default would exist;

(h) any Lien existing on property of a Person immediately prior to its being consolidated with or merged into the Company or a Restricted Subsidiary or its becoming a Restricted Subsidiary, or any Lien existing on any property acquired by the Company or any Restricted Subsidiary at the time such property is so acquired (whether or not the Debt secured thereby shall have been assumed), provided that (i) no such Lien shall have been created or assumed in contemplation of such consolidation or merger or such Person's becoming a Restricted Subsidiary or such acquisition of property, (ii) each such Lien shall extend solely to the item or items of property so acquired and, if required by the terms of the instrument originally creating such Lien, other property which is an improvement to or is acquired for specific use in connection with such acquired property, and (iii) at the time of such incurrence and after giving effect thereto, no Default or Event of Default would exist;

(i) Liens granted by the Company or its Restricted Subsidiaries to secure obligations of the Company or its Restricted Subsidiaries incurred in connection with loans or advances made to the Company or its Restricted Subsidiaries by Governmental Authorities;

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(j) any extensions, renewals or replacements of any Lien permitted by the preceding subparagraphs (g) and (i) of this Section 10.2, provided that (i) no additional property shall be encumbered by such Liens, (ii) the unpaid principal amount of the Debt or other obligations secured thereby shall not be increased on or after the date of any extension, renewal or replacement, and (iii) at such time and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing; and

(k) in addition to the Liens permitted by the preceding subparagraphs (a) through (j), inclusive, of this Section 10.2, Liens securing Debt of the Company or any Restricted Subsidiary, provided that the sum of (i) unsecured Debt of Restricted Subsidiaries (other than Debt owing to the Company or a Wholly-Owned Restricted Subsidiary), (ii) Debt of Unrestricted Subsidiaries (other than Debt owing to the Company or a Wholly-Owned Subsidiary) and (iii) the aggregate principal amount of Debt secured by Liens pursuant to this Section 10.2(k) shall not exceed 15% of Consolidated Net Worth.

Section 10.3. Sales of Assets. The Company will not, and will not permit any Restricted Subsidiary to, sell, lease or otherwise dispose of any substantial part (as defined below) of the assets of the Company and its Restricted Subsidiaries (including, without limitation, accounts receivable, leasehold interests and the capital stock or other equity interests in any Restricted Subsidiary); provided, however, that the Company or any Restricted Subsidiary may sell, lease or otherwise dispose of assets constituting a substantial part of the assets of the Company and its Restricted Subsidiaries if such assets are sold for cash in an arms length transaction for Fair Market Value and, at such time and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing and an amount equal to the Net Proceeds received from such sale, lease or other disposition (but excluding any portion of the Net Proceeds which are attributable to assets which constitute less than a substantial part of the assets of the Company and its Restricted Subsidiaries) shall be used, in any combination:

(1) within three years of such sale, lease or disposition to acquire productive assets used or useful in carrying on the business of the Company and its Restricted Subsidiaries and having (i) a value at least equal to the value of such assets sold, leased or otherwise disposed of, and (ii) the ability to generate operating income at least equal to the operating income of such assets sold, leased or otherwise disposed of; or

(2) to prepay or retire first, Senior Debt secured by a Lien on property of the Company and/or its Restricted Subsidiaries and second, unsecured Senior Debt of the Company and/or its Restricted Subsidiaries; provided that in the case of any such prepayment of unsecured Senior Debt, the Notes shall be prepaid pro rata in accordance with Section 8.2 of this Agreement.

As used in this Section 10.3, a sale, lease or other disposition of

assets shall be deemed to be a "substantial part" of the assets of the Company and its Restricted Subsidiaries if the book value of such assets, when added to the book value of all other assets sold, leased or otherwise disposed of by the Company and its Restricted Subsidiaries during such fiscal year, exceeds 15% of the book value of Consolidated Total Assets, determined as of the end of the fiscal year immediately preceding such sale, lease or other disposition; provided that there shall be excluded from any determination of a "substantial part" any (i) sale or disposition of assets in the ordinary course of business of the Company and its Restricted Subsidiaries, and (ii) any transfer of assets from the Company to any Wholly-Owned Restricted Subsidiary or from any Restricted Subsidiary to the Company or a Wholly-Owned Restricted Subsidiary.

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Section 10.4. Merger, Consolidation and Sale of Stock. (a) The Company will not, and will not permit any of its Restricted Subsidiaries to, consolidate with or merge with any other corporation or convey, transfer or lease substantially all of its assets in a single transaction or series of transactions to any Person; provided that:

(1) a Restricted Subsidiary of the Company may (x) consolidate with or merge with, or convey, transfer or lease substantially all of its assets in a single transaction or series of transactions to, the Company or a Wholly-Owned Restricted Subsidiary so long as in any merger or consolidation involving the Company, the Company shall be the surviving or continuing corporation, or (y) convey, transfer or lease all of its assets in compliance with the provisions of Section 10.3; and

(2) the foregoing restriction does not apply to the consolidation or merger of the Company with, or the conveyance, transfer or lease of substantially all of the assets of the Company in a single transaction or series of transactions to, any Person so long as:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease substantially all of the assets of the Company as an entirety, as the case may be (the "Successor Corporation"), shall be a solvent corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia;

(b) if the Company is not the Successor Corporation, such Successor Corporation shall have executed and delivered to each holder of Notes its assumption of the due and punctual performance and observance of each covenant and condition of this Agreement and the Notes (pursuant to such agreements and instruments as shall be reasonably satisfactory to the Required Holders), and the Company shall have caused to be delivered to each holder of Notes an opinion of nationally recognized independent counsel, to the effect that all agreements or instruments effecting such assumption are enforceable in accordance with their terms and comply with the terms hereof; and

(c) immediately after giving effect to such transaction no Default or Event of Default would exist.

No such conveyance, transfer or lease of substantially all of the assets of the Company shall have the effect of releasing the Company or any successor corporation that shall theretofore have become such in the manner prescribed in this Section 10.4 from its liability under this Agreement or the Notes.

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(b) The Company will not permit any Restricted Subsidiary to issue or sell any shares of stock or other equity interests of any class (including as "stock" for the purposes of this Section 10.4(b), any warrants, rights or options to purchase or otherwise acquire stock or other equity interests or other securities exchangeable for or convertible into stock or other equity interests) of such Restricted Subsidiary to any Person other than the Company or

a Wholly-Owned Restricted Subsidiary, except for the purpose of qualifying directors, or except in satisfaction of the validly pre-existing preemptive or contractual rights of minority shareholders in connection with the simultaneous issuance of stock or other equity interests to the Company and/or a Restricted Subsidiary whereby the Company and/or such Restricted Subsidiary maintain their same proportionate interest in such Subsidiary.

(c) The Company will not sell, transfer or otherwise dispose of any shares of stock or other equity interests of any Restricted Subsidiary (except to qualify directors), and will not permit any Restricted Subsidiary to sell, transfer or otherwise dispose of (except to the Company or a Wholly-Owned Restricted Subsidiary) any shares of stock or other equity interests of any other Restricted Subsidiary, unless (i) the consideration for such sale, transfer or other disposition is either cash or shares of stock, (ii) such sale, transfer or other disposition is made to a Person (other than an Affiliate), of the Company's entire Investment in such Restricted Subsidiary and (iii) such sale, transfer or other disposition can be made within the limitations of Section 10.3.

Section 10.5. Limitation on Sale and Leasebacks. The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; provided that the foregoing restriction shall not apply to any Sale and Leaseback Transaction if immediately after the consummation of such Sale and Leaseback Transaction and after giving effect thereto, Attributable Debt will not exceed 25% of Consolidated Net Worth.

Section 10.6. Restricted Investments. The Company will not, and will not permit any Restricted Subsidiary to, make or permit to be outstanding any Investment except:

(a) Investments in one or more Restricted Subsidiaries or any Person that becomes a Restricted Subsidiary;

(b) current assets arising from the sale of goods and services in the ordinary course of business of the Company and its Restricted Subsidiaries;

(c) property to be used in the ordinary course of business of the Company and its Restricted Subsidiaries;

(d) Investments in obligations issued by or guaranteed by the United States of America or an agency thereof, provided that such obligations mature within 365 days from the date of acquisition thereof;

(e) Investments in certificates of deposit, time deposits or banker's acceptances issued by (or accepted by) an Acceptable Bank, provided that such obligations mature within 365 days from the date of acquisition thereof;

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(f) Investments in commercial paper rated in the highest ratings classifications by Moody's or S&P and maturing not more than 270 days from the date of creation thereof;

(g) Investments in Repurchase Agreements;

(h) Investments in tax-exempt obligations of any state of the United States of America, or any municipality of any such state, in each case rated "AA" or higher by Moody's or "Aa2" or higher by S&P or an equivalent credit rating by another credit rating agency of recognized national standing, provided that such obligations mature within 365 days from the date of acquisition thereof;

(i) Investments in money market instrument programs which are classified as current assets in accordance with GAAP, which money market instrument programs are administered by an "investment company" regulated under the Investment Company Act of 1940 and which money market instrument programs hold only Investments satisfying the criteria set forth in clauses (d), (e), (f), (g) and (h) above;

(j) Investments in businesses (including Unrestricted Subsidiaries) which are in industries which are fundamentally related

to the businesses engaged in by the Company and its Subsidiaries on the date of this Agreement; and

(k) Investments in addition to the Investments permitted by the preceding clauses (a) through (j); provided that the aggregate principal amount of Investments outstanding pursuant to this clause (k) shall not at any time exceed 25% of Consolidated Net Worth.

In valuing Investments for purposes of applying the limitations set forth in clause (k) of this Section 10.6, such Investments shall be taken at the original cost thereof, without allowance for any subsequent write-offs or appreciation or depreciation therein, but less any amount repaid or recovered on account of capital or principal.

Section 10.7. Nature of Business. Neither the Company nor any Restricted Subsidiary will engage in any business, if, as a result, when taken as a whole, the general nature of the business of the Company and its Restricted Subsidiaries would be substantially changed from the general nature of the business of the Company and its Restricted Subsidiaries on the date of this Agreement.

Section 10.8. Transactions with Affiliates. The Company will not and will not permit any Restricted Subsidiary to enter into directly or indirectly any Material transaction or group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Restricted Subsidiary), except upon fair and reasonable terms no less favorable to the Company or such Restricted Subsidiary than would be obtainable in a comparable arm's-length transaction with a Person not an Affiliate. In addition, the Company will not, and will not permit any Restricted Subsidiary to, make any loan or advance to the Company or any Restricted Subsidiary except in the ordinary course of business and in accordance with the reasonable requirements of the business of the Company or any such Restricted Subsidiary.

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Section 10.9. Acquisitions. The Company will not, and will not permit any Restricted Subsidiary to, make any acquisition of all or substantially all of the assets or capital stock of any business entity if at the time of such acquisition and after giving effect thereto, a Default or Event of Default shall exist.

Section 10.10. Unrestricted Subsidiaries. The Company will not at any time permit Unrestricted Subsidiaries to (i) own more than 40% of the consolidated total assets of the Company and its Subsidiaries, or (ii) account for more than 40% of the consolidated gross revenues of the Company and its Subsidiaries, determined in each case in accordance with GAAP.

SECTION 11. EVENTS OF DEFAULT.

An "Event of Default" shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Company defaults in the payment of any interest on any Note for more than five Business Days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained in Section 8.5, 10.1, 10.2, 10.3, 10.4 or 10.5; or

(d) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in paragraphs (a), (b) and (c) of this Section 11) and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note (any such written notice to be identified as a "notice of default" and to refer specifically to this paragraph (d) of Section 11); or

(e) any representation or warranty made in writing by or on behalf of the Company or by any officer of the Company in this Agreement or in any writing furnished in connection with the transactions contemplated hereby or thereby proves to have been false or incorrect in any material respect on the date as of which made; or

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(f) (i) the Company, any Restricted Subsidiary or any Significant Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Debt (other than the Notes) or other security that is outstanding in an aggregate principal amount (or which has a par or stated value) in excess of \$10,000,000 beyond any period of grace provided with respect thereto, or (ii) the Company, any Restricted Subsidiary or any Significant Subsidiary is in default in the performance of or compliance with any term of any instrument, mortgage, indenture or other agreement relating to any Debt (other than the Notes) or other security in an aggregate principal amount (or which has a par or stated value) in excess of \$10,000,000 or any other condition exists, and as a consequence of such default or condition such Debt or security has become, or has been declared, due and payable before its stated maturity or before its regularly scheduled dates of payment, or (iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of Debt or other security to convert such Debt or other security into equity interests), the Company, any Restricted Subsidiary or any Significant Subsidiary has become obligated to purchase or repay Debt (other than the Notes) or such other security before its regular maturity or before its regularly scheduled dates of payment in an aggregate outstanding principal amount (or which has a par or stated value) in excess of \$10,000,000; or

(g) the Company, any Restricted Subsidiary or any Significant Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or governmental authority of competent jurisdiction enters any order appointing, without consent by the Company, any Restricted Subsidiary or any Significant Subsidiary, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company, any Restricted Subsidiary or any Significant Subsidiary, or any such petition shall be filed against the Company, any Restricted Subsidiary or any Significant Subsidiary and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money aggregating in excess of \$10,000,000 are rendered against one or more of the Company, its Restricted Subsidiaries and its Significant Subsidiaries and which judgments are not, within 90 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 90 days after the expiration of such stay; or

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(j) if (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a

waiver of such standards or extension of any amortization period is sought or granted under Section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under Section 4042 of ERISA to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the unfunded present value of accumulated plan benefits under all Plans, determined in accordance with Title IV of ERISA, shall exceed \$10,000,000, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, would reasonably be expected to have a Material Adverse Effect.

As used in Section 11(j), the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

SECTION 12. REMEDIES ON DEFAULT, ETC.

Section 12.1. Acceleration. (a) If an Event of Default with respect to the Company or a Significant Subsidiary described in paragraph (g) or (h) of Section 11 (other than an Event of Default described in clause (i) of paragraph (g) or described in clause (vi) of paragraph (g) by virtue of the fact that such clause encompasses clause (i) of paragraph (g)) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default has occurred and is continuing, any holder or holders of more than 60% in aggregate principal amount of the Notes at the time outstanding may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) If any Event of Default described in paragraph (a) or (b) of Section 11 has occurred and is continuing, any holder or holders of Notes at the time outstanding affected by such Event of Default may at any time, at its or their option, by notice or notices to the Company, declare all the Notes held by such holder or holders to be immediately due and payable.

Upon any Note's becoming due and payable under this Section 12.1, whether automatically or by declaration, such Note will forthwith mature and the entire unpaid principal amount of such Note, plus (i) all accrued and unpaid interest thereon and (ii) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for) and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

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Section 12.2. Other Remedies. If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Section 12.3. Rescission. At any time after any Notes have been declared

due and payable pursuant to clause (b) or (c) of Section 12.1, the holders of more than 60% in aggregate principal amount of the Notes then outstanding, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes, all principal of and Make-Whole Amount, if any, on any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes, at the Default Rate, (b) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (c) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.4. No Waivers or Election of Remedies, Expenses, Etc. No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, the reasonable attorneys' fees, expenses and disbursements for the holders as set forth in Section 15.

SECTION 13. REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES.

Section 13.1. Registration of Notes. The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

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Section 13.2. Transfer and Exchange of Notes. Upon surrender of any Note at the principal executive office of the Company for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or its attorney duly authorized in writing and accompanied by the address for notices of each transferee of such Note or part thereof), the Company shall execute and deliver not more than 5 Business Days following surrender of such Note, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of the Note originally issued hereunder. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than \$100,000, provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than \$100,000. Any transferee, by its acceptance of a Note registered in its name (or the name of its nominee), shall be deemed to have made the representation set forth in Section 6.2, provided that such holder may (in reliance upon information provided by the Company, which shall not be unreasonably withheld) make a representation to the effect that the purchase by such holder of any Note will not constitute a non-exempt prohibited transaction under Section 406(a) of ERISA.

The Notes have not been registered under the Securities Act or under the securities laws of any state and may not be transferred or resold unless registered under the Securities Act and all applicable state securities laws or unless an exemption from the requirement for such registration is available.

Section 13.3. Replacement of Notes. Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a nominee for, an original Purchaser or another holder of a Note with a minimum net worth of at least \$50,000,000, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

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the Company at its own expense shall execute and deliver not more than five Business Days following satisfaction of such conditions, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

SECTION 14. PAYMENTS ON NOTES.

Section 14.1. Place of Payment. Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in New York, New York at the principal office of PNC Bank, N.A., in such jurisdiction. The Company may at any time, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

Section 14.2. Home Office Payment. So long as any Purchaser or such Purchaser's nominee shall be the holder of any Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose for such Purchaser on Schedule A hereto, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, such Purchaser shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section 14.1. Prior to any sale or other disposition of any Note held by any Purchaser or such Person's nominee, such Person will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Company in exchange for a new Note or Notes pursuant to Section 13.2. The Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note.

SECTION 15. EXPENSES, ETC.

Section 15.1. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Company will pay all reasonable costs and expenses (including reasonable attorneys' fees of one special counsel for the Purchasers and, if reasonably required, local or other counsel) incurred by the Purchasers and the holders of Notes in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement or the Notes (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the reasonable costs and expenses incurred in enforcing or defending (or determining whether or how to

enforce or defend) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand by any Governmental Authority issued in connection with this Agreement or the Notes, or by reason of being a holder of any Note, and (b) the reasonable costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby and by the Notes. The Company will pay, and will save each Purchaser and each other holder of a Note harmless from, all claims in respect of any reasonable fees, costs or expenses if any, of brokers and finders (other than those retained by the Purchasers).

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Section 15.2. Survival. The obligations of the Company under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

SECTION 16. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by any Purchaser of any Note or portion thereof or interest therein and the payment of any Note may be relied upon by any subsequent holder of any such Note, regardless of any investigation made at any time by or on behalf of any Purchaser or any other holder of any such Note. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between the Purchasers and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

SECTION 17. AMENDMENT AND WAIVER.

Section 17.1. Requirements. This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6 or 21 hereof, or any defined term (as it is used therein) will be effective as to any holder of Notes unless consented to by such holder of Notes in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of Sections 8, 11(a), 11(b), 12, 17 or 20.

Section 17.2. Solicitation of Holders of Notes.

(a) Solicitation. The Company will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

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(b) Payment. The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Notes as consideration for or as an inducement to the entering into by such holder of Notes of any waiver or amendment of any of the terms and provisions hereof unless such remuneration is concurrently paid, or security is concurrently

granted, on the same terms, ratably to each holder of Notes then outstanding even if such holder did not consent to such waiver or amendment.

(c) Consent in Contemplation of Transfer. Any consent made pursuant to this Section 17 by a holder of Notes that has transferred or has agreed to transfer its Notes to the Company, any Subsidiary or any Affiliate of the Company and has provided or has agreed to provide such written consent as a condition to such transfer shall be void and of no force or effect except solely as to such holder, and any amendments effected or waivers granted or to be effected or granted that would not have been or would not be so effected or granted but for such consent (and the consents of all other holders of Notes that were acquired under the same or similar conditions) shall be void and of no force or effect except solely as to such holder.

Section 17.3. Binding Effect, Etc. Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 17.4. Notes Held by Company, Etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

SECTION 18. NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telefacsimile if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

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(i) if to a Purchaser or such Purchaser's nominee, to such Purchaser or such Purchaser's nominee at the address specified for such communications in Schedule A to this Agreement, or at such other address as such Purchaser or such Purchaser's nominee shall have specified to the Company in writing pursuant to this Section 18;

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing pursuant to this Section 18, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of Chief Financial Officer, with a copy to the General Counsel, or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this Section 18 will be deemed given only when actually received.

SECTION 19. REPRODUCTION OF DOCUMENTS.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by each Purchaser at the Closing (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to each Purchaser, may be reproduced by such Purchaser by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and such Purchaser may destroy any original document so reproduced. The Company agrees and

stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Purchaser in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit the Company or any other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

SECTION 20. CONFIDENTIAL INFORMATION.

For the purposes of this Section 20, "Confidential Information" means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Purchaser as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any Person acting on such Purchaser's behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Purchaser under Section 7.1 that are otherwise publicly available. Each Purchaser will maintain the confidentiality of such Confidential Information in accordance with procedures

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adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser, provided that such Purchaser may deliver or disclose Confidential Information to (i) such Purchaser's directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by such Purchaser's Notes), (ii) such Purchaser's financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 20, (iii) any other holder of any Note, (iv) any Institutional Investor to which such Purchaser sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (v) any Person from which such Purchaser offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (vi) any federal or state regulatory authority having jurisdiction over such Purchaser, (vii) the National Association of Insurance Commissioners or any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser's investment portfolio, (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Purchaser's Notes and this Agreement or, (ix) any and all Persons, without limitation, to the extent any such Confidential Information pertains to the U.S. federal tax treatment and U.S. federal tax structure of the transaction contemplated by this Agreement and all materials of any kind (including opinions or other U.S. federal tax analyses) that are provided to the Purchasers relating to such U.S. federal tax treatment and U.S. federal tax structure. However, any such information relating to such U.S. federal tax treatment and U.S. federal tax structure is required to be kept confidential to the extent necessary to comply with any applicable securities laws. Clause (ix) of the preceding sentence is intended to cause the transaction contemplated hereby not to be treated as having been offered under conditions of confidentiality for purposes of Sections 1.6011-4(b)(3) and 301.6111-2(a)(2)(ii) (or any successor provisions) of the U.S. Treasury Regulations issued under the Code and shall be construed in a manner consistent with such purpose. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 20 as though it were a party to this Agreement. On reasonable request by the Company in

connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 20.

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SECTION 21. SUBSTITUTION OF PURCHASER.

Each Purchaser shall have the right to substitute any one of such Purchaser's Affiliates as the purchaser of the Notes that such Purchaser has agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both such Purchaser and such Purchaser's Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in Section 6. Upon receipt of such notice, wherever the word "Purchaser" is used in this Agreement (other than in this Section 21), such word shall be deemed to refer to such Affiliate in lieu of such Purchaser. In the event that such Affiliate is so substituted as a purchaser hereunder and such Affiliate thereafter transfers to such Purchaser all of the Notes then held by such Affiliate, upon receipt by the Company of notice of such transfer, wherever the word "Purchaser" is used in this Agreement (other than in this Section 21), such word shall no longer be deemed to refer to such Affiliate, but shall refer to such Purchaser, and such Purchaser shall have all the rights of an original holder of the Notes under this Agreement.

SECTION 22. MISCELLANEOUS.

Section 22.1. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not.

Section 22.2. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

Section 22.3. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 22.4. Construction. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

Section 22.5. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

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Section 22.6. Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

The execution hereof by the Purchasers shall constitute a contract among the Company and the Purchasers for the uses and purposes hereinabove set forth. This Agreement may be executed in any number of counterparts, each executed counterpart constituting an original but all together only one agreement.

Very truly yours,

PHILADELPHIA SUBURBAN CORPORATION

By \s\ Kathy L. Pape

Name: Kathy L. Pape

Title: Vice President and Treasurer

Accepted as of the first date written above.

[VARIATION]

The Baltimore Life Insurance Company
By: \s\ Matthew Minnetian

Name: Matthew Minnetian
Title: Senior VP

The Equitable Life Assurance Society of the
By: \s\ Joel G. Serebransky

Name: Joel G. Serebransky
Title: Investment Officer

MONY Life Insurance Company
By: \s\ Emilia F. Wiener

Name: Emilia F. Wiener
Title: Senior Managing Director

Nationwide Life Insurance Company
By: \s\ Mark W. Poeppelman

Name: Mark W. Poeppelman
Title: Authorized Signatory

Nationwide Life Insurance Company of
America

By: \s\ Mark W. Poeppelman

Name: Mark W. Poeppelman
Title: Authorized Signatory

Teachers Insurance and Annuity Association of
America

By: \s\ Estelle Simsolo

Name: Estelle Simsolo
Title: Director - Private Placements

NAME OF PURCHASERS	SERIES	PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED
[_____]	A	\$(_____)
[_____]	B	\$(_____)
[_____]	C	\$(_____)
[_____]		
[_____]		

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Philadelphia Suburban Corporation, and as to interest rate, security description, Series maturity date, PPN, principal, premium or interest") to:

[_____
[_____
[_____]

"Change in Control" is defined in Section 8.7.

"Closing" is defined in Section 3.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"Company" means Philadelphia Suburban Corporation, a Pennsylvania corporation.

"Confidential Information" is defined in Section 20.

"Consolidated Debt" means, as of any date of determination, the total of all Debt of the Company and its Subsidiaries outstanding on such date, after eliminating all offsetting debits and credits between the Company and its Subsidiaries and all other items required to be eliminated in the course of the preparation of consolidated financial statements of the Company and its Subsidiaries in accordance with GAAP.

"Consolidated Funded Debt" means, as of any date of determination, the total of all Funded Debt of the Company and its Subsidiaries outstanding on such date, after eliminating all offsetting debits and credits between the Company and its Subsidiaries and all other items required to be eliminated in the course of the preparation of consolidated financial statements of the Company and its Subsidiaries in accordance with GAAP.

"Consolidated Net Worth" means, as of any date of determination, the sum of (i) the par value (or value stated on the books of the corporation) of the capital stock (but excluding treasury stock and capital stock subscribed and unissued) of the Company and its Subsidiaries plus (ii) the amount of the paid-in capital and retained earnings of the Company and its Subsidiaries, in each case as such amounts would be shown on a consolidated balance sheet of the Company and its Subsidiaries as of such time prepared in accordance with GAAP.

"Consolidated Total Assets" means, as of any date of determination, the total amount of all assets of the Company and its Subsidiaries, as such amounts would be shown on a consolidated balance sheet of the Company and its Subsidiaries as of such time prepared in accordance with GAAP.

"Consolidated Total Capitalization" means, as of any date of determination, the sum of (i) Consolidated Funded Debt and (ii) Consolidated Net Worth.

"Debt" means, with respect to any Person, without duplication,

(a) its liabilities for borrowed money;

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(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable and other accrued liabilities arising in the ordinary course of business but including, without limitation, all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) its Capital Lease Obligations;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all non-contingent liabilities in respect of reimbursement agreements or similar agreements in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions;

(f) Swaps of such Person; and

(g) Guarantees of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Debt of any Person shall include all obligations of such Person of the

character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"Default" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Default Rate" means that rate of interest that is the greater of (i) 6.87% per annum, or (ii) 2% over the rate of interest publicly announced by PNC Bank, N.A. in New York, New York as its "base" or "prime" rate.

"Environmental Laws" means any and all federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under section 414 of the Code.

"Event of Default" is defined in Section 11.

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"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fair Market Value" means, at any time and with respect to any property, the sale value of such property that would be realized in an arm's-length sale at such time between an informed and willing buyer and an informed and willing seller (neither being under a compulsion to buy or sell), as reasonably determined in the good faith opinion of the Company's board of directors.

"Funded Debt" means, with respect to any Person, (i) all Debt of such Person which by its terms or by the terms of any instrument or agreement relating thereto matures, or which is otherwise payable or unpaid, one year or more from, or is directly or indirectly renewable or extendible at the option of the obligor in respect thereof to a date one year or more (including, without limitation, an option of such obligor under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of one year or more) from, the date of the creation thereof, (ii) all payments in respect of the Debt described in the preceding clause (i) that are required to be made within one year from the date of determination of Funded Debt, whether or not such payments shall constitute a current liability of the obligor under GAAP, and (iii) all Guaranties of the Debt described in clauses (i) and (ii).

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"Governmental Authority" means

(a) the government of

(i) the United States of America or any state or other political subdivision thereof, or

(ii) any jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which has jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"Guaranty" means, with respect to any Person, any obligation (except

the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any Debt, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such Debt or obligation or any property constituting security therefor primarily for the purpose of assuring the owner of such Debt or obligation of the ability of any other Person to make payment of the Debt or obligation;

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(b) to advance or supply funds (i) for the purchase or payment of such Debt or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such Debt or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such Debt or obligation of the ability of any other Person to make payment of the Debt or obligation; or

(d) otherwise to assure the owner of such Debt or obligation against loss in respect thereof.

In any computation of the Debt or other liabilities of the obligor under any Guaranty, the Debt or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor, provided that the amount of such Debt outstanding for purposes of this Agreement shall not exceed the maximum amount of Debt that is the subject of such Guaranty.

"Hazardous Material" means any and all pollutants, toxic or hazardous wastes or any other substances that might pose a hazard to health or safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage, or filtration of which is or shall be restricted, prohibited or penalized by any applicable law (including, without limitation, asbestos, urea formaldehyde foam insulation and polychlorinated biphenyls).

"holder" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"Institutional Investor" means (a) any original purchaser of a Note, (b) any holder of more than \$5,000,000 of the aggregate principal amount of the Notes then outstanding, and (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form.

"Investments" shall mean all investments, in cash or by delivery of property made, directly or indirectly in any Person, whether by acquisition of shares of capital stock, Debt or other obligations or securities or by loan, advance, capital contribution or otherwise.

"Lien" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement (other than an operating lease) or Capital Lease, upon or with respect to any property or asset of such Person (including, in the case of stock, shareholder agreements, voting trust agreements and all similar arrangements).

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"Material" means material in relation to the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole.

"Make-Whole Amount" shall have the meaning set forth in Section 8.6.

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, or (b) the ability of the Company to perform its obligations under this Agreement and the Notes, or (c) the validity or enforceability of this Agreement or the Notes.

"Memorandum" is defined in Section 5.3.

"Moody's" shall mean Moody Investors Service, Inc.

"Multiemployer Plan" means any Plan that is a "multiemployer plan" (as such term is defined in Section 4001(a)(3) of ERISA).

"Net Proceeds" means with respect to any sale of property by any Person an amount equal to (a) the aggregate amount of the consideration received by such Person in respect of such sale (valued at the Fair Market Value of such consideration at the time of such sale), minus (b) the sum of (i) all out-of-pocket costs and expenses actually incurred by such Person in connection with such sale, and (ii) all state, federal and foreign taxes incurred, or to be incurred, by the seller in connection with such sale.

"Notes" is defined in Section 1.

"Officer's Certificate" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

"Plan" means an "employee benefit plan" (as defined in Section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

"property" or "properties" means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"Purchasers" means the purchasers of the Notes named in Schedule A hereto.

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"QPAM Exemption" means Prohibited Transaction Class Exemption 84-14 issued by the United States Department of Labor.

"Required Holders" means, at any time, the holders of more than 60% in principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company or any of its Affiliates).

"Responsible Officer" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

"Repurchase Agreement" shall mean any written agreement:

(a) that provides for (1) the transfer of one or more United States Governmental Securities in an aggregate principal amount at least equal to the amount of the Transfer Price (defined below) to the Company or any of its Subsidiaries from an Acceptable Bank or an Acceptable Broker-Dealer against a transfer of funds (the "Transfer Price") by the Company to such Acceptable Bank or Acceptable Broker-Dealer, and (2) a simultaneous agreement by the Company, in connection with such transfer of funds, to transfer to such Acceptable Bank or Acceptable Broker-Dealer the same or substantially similar United States Governmental Securities for a price not less than the Transfer Price plus a reasonable return thereon at a date certain not

later than 365 days after such transfer of funds,

(b) in respect of which the Company shall have the right, whether by contract or pursuant to applicable law, to liquidate such agreement upon the occurrence of any default thereunder, and

(c) in connection with which the Company, or an agent thereof, shall have taken all action required by applicable law or regulations to perfect a Lien in such United States Governmental Securities.

"Restricted Subsidiary" shall mean each Subsidiary listed as a Subsidiary on Schedule 5.4 and any other Subsidiary,

(1) a majority of each class of voting securities of which is legally and beneficially owned by the Company and its Restricted Subsidiaries; and

(2) which has been designated as a Restricted Subsidiary pursuant to Section 9.6.

"Sale-and-Leaseback Transaction" means a transaction or series of transactions pursuant to which the Company or any Subsidiary shall sell or transfer to any Person (other than the Company or a Wholly-owned Subsidiary) any property, whether now owned or hereafter acquired, and, as part of the same transaction or series of transactions, the Company or any Subsidiary shall rent or lease as lessee (other than pursuant to a Capital Lease), or similarly acquire the right to possession or use of, such property or one or more properties which it intends to use for the same purpose or purposes as such property.

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"S&P" means Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc.

"Securities Act" means the Securities Act of 1933, as amended from time to time, together with the rules and regulations promulgated thereunder.

"Senior Debt" means, as of the date of any determination thereof, all Consolidated Debt, other than Subordinated Debt.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

"Significant Subsidiary" means, at any time, any Subsidiary that accounts for more than (i) 10% of the consolidated assets of the Company and its Subsidiaries or (ii) 10% of consolidated revenue of the Company and its Subsidiaries.

"Subordinated Debt" means all unsecured Debt of the Company which shall contain or have applicable thereto subordination provisions providing for the subordination thereof to other Debt of the Company (including, without limitation, the obligations of the Company under this Agreement).

"Subsidiary" means, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"Swaps" means, with respect to any Person, payment obligations with respect to interest rate swaps, currency swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person,

based on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

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"Unrestricted Subsidiary" means any Subsidiary acquired after the date of this Agreement which is so designated by the Company.

"Wholly-Owned Restricted Subsidiary" means, at any time, any Restricted Subsidiary one hundred percent (100%) of all of the equity interests (except directors' qualifying shares) and voting interests of which are owned by any one or more of the Company and the Company's other Wholly-Owned Restricted Subsidiaries at such time.

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CHANGES IN CORPORATE STRUCTURE

None.

SCHEDULE 4.9
(to Note Purchase Agreement)

PHILADELPHIA SUBURBAN CORPORATION
Subsidiaries of the Company,
Ownership of Subsidiary Stock

Subsidiary	State of Incorporation	Stockholder
-----	-----	-----
1. Aclarius Corporation	Pennsylvania	100%
2. Aqua Acquisition Corporation	Pennsylvania	100%
3. Consumers Applegrove Water Company	Ohio	100%
4. Consumers Applied Technologies, Inc.	Maine	100%
5. Consumers Illinois Water Company	Illinois	100%
6. Consumers Indiana Water Company	Indiana	100%
7. Consumers Maine Water Company	Maine	100%
8. Consumers New Jersey Water Company	New Jersey	100%
9. Consumers Ohio Water Company	Ohio	100%
10. Consumers Water Company	Pennsylvania	100%
11. Drexel Hill Corporation	Pennsylvania	100%
12. Hydraulics, Ltd.	North Carolina	100%
13. Little Washington Wastewater Company	Pennsylvania	100%
14. Pennsylvania Suburban Water Company	Pennsylvania	100%
15. Philadelphia Suburban Corporation	Pennsylvania	100%
16. PSC Services, Inc.	Delaware	100%
17. Raleigh Acquisition Corporation	New Hampshire	100%
18. Suburban Environmental Services Company	Pennsylvania	100%
19. The Hawley Water Company	Pennsylvania	80%
20. Utility & Municipal Services, Inc.	Pennsylvania	100%
A. AquaSource Development Company	Texas	100%
B. AquaSource Utility, Inc.	Texas	100%
1. Reston/Lake Anne Air Conditioning Corp.	Virginia	100%
3. AquaSource Utility-North Carolina, Inc.	North Carolina	100%
5. AquaSource Utility-Virginia, Inc.	Virginia	100%
6. AquaSource Utility-New Jersey, Inc.	New Jersey	100%
7. AquaSource/CU, Inc.	Missouri	100%
8. AquaSource/RU, Inc.	Missouri	100%
9. AquaSource/UC, Inc.	Texas	100%
a. Utility Center, Inc.	Indiana	100%
10. Arredondo Utility Company, Inc.	Florida	100%
11. Blue Ridge Utility Company	Virginia	100%
12. Brookside Sewer District, Inc.	South Carolina	100%
13. Cambridge Water Works, Inc.	New York	100%
14. Crystal River Utilities, Inc.	Florida	100%
15. Dolomite Utilities Corp.	Florida	100%
a. Kensington Park Utilities, Inc.	Florida	100%

	i. Longwood Run Utilities, Inc.	Florida	100%
16.	Dyker Water Company, Inc.	New York	100%
17.	Earlsville Forest Water Company	Virginia	100%
18.	Eastern Connecticut Regional Water Company, Inc.	Connecticut	100%
19.	Fairways Utilities, Inc.	North Carolina	100%
20.	Glynwood Water Systems, Inc.	North Carolina	100%
21.	Heritage Homes of Virginia, Inc.	Virginia	100%
22.	Indian River Water Company	Virginia	100%
23.	Jasmine Lakes Utilities Corp.	Florida	100%
25.	Kingsvale Water Company, Inc.	New York	100%
26.	Lake Monticello Service Company	Virginia	100%
27.	Lake Suzy Utility, Inc.	Florida	100%
28.	Land 'Or Utility Company, Inc.	Virginia	100%
29.	Maxim Sewerage Corporation	New Jersey	100%
30.	Mayfore Water Company, Inc.	Virginia	100%
31.	Mountain Point Utilities, Inc.	North Carolina	100%
32.	Mountainview Water Co., Inc.	Virginia	100%
33.	Ocala Oaks Utilities, Inc.	Florida	100%
34.	Rainbow Forest Water Corporation	Virginia	100%
35.	Rayco Utilities, Inc.	North Carolina	100%
36.	Sydnor Hydrodynamics, Inc.	Virginia	100%
	a. Alpha Water Corporation	Virginia	100%
	b. AquaSource SL, Inc.	Virginia	100%
	c. Caroline Utilities, Inc.	Virginia	100%
	d. Ellerson Wells, Incorporated	Virginia	100%
	e. James River Service Corporation	Virginia	100%
	f. Powhatan Water Works, Incorporated	Virginia	100%
	g. Sydnor Water Corporation	Virginia	100%
37.	Waccabuc Water Works Inc.	New York	100%
38.	Water Distributors, Inc.	Virginia	100%
39.	Wild Oaks Water Company, Inc.	New York	100%
40.	Willowbrook Utility Company, Inc.	North Carolina	100%
C.	The Reynolds Group, Inc.	Indiana	100%
	1. Capitol Engineering, Inc.	Indiana	100%
	2. Hendricks County Wastewater, LLC	Indiana	80%
	3. Indiana Water Infrastructure Group, Inc.	Indiana	100%
	a. Chimney Wood Sewage Works, Inc.	Indiana	100%
	c. Wastewater One, LLC	Indiana	100%
	d. Water One, Inc.	Indiana	100%
	e. Wildwood Shores Utilities Corp.	Indiana	100%
	f. Wymberly Sanitary Works, Inc.	Indiana	100%
4.	Reynolds Operations Corporation	Indiana	100%
D.	AquaSource Operations, Inc.	Delaware	100%

SCHEDULE 5.4
(to Note Purchase Agreement)

PHILADELPHIA SUBURBAN CORPORATION
Organization and Ownership of Shares of Subsidiaries

Philadelphia Suburban Corporation has 1,720 shares of Series B Preferred Stock outstanding.

Pennsylvania Suburban Water Company owns 316 of the total 392 shares outstanding of The Hawley Water Company.

With respect to the AquaSource companies to be acquired on or about July 31, 2003:

There are 10 shares of preferred stock issued by AquaSource Utility, Inc. Philadelphia Suburban Corporation has an agreement with the holders of such shares to purchase such shares for \$400,000, or 80% of their liquidation value upon the Closing of Philadelphia Suburban Corporation's purchase of the AquaSource operations.

Approximately 80% of the ownership units of Hendricks County Wastewater LLC are owned by The Reynolds Group, Inc., which is one of the companies to be acquired by Philadelphia Suburban Corporation upon the Closing of Philadelphia Suburban Corporation's purchase of the AquaSource operations.

SCHEDULE 5.4(b)
(to Note Purchase Agreement)

FINANCIAL STATEMENTS

Audited Financial Statements for fiscal year ended December 31, 2001 and December 31, 2002 and Quarterly Report for fiscal period ended March 31, 2003.

Schedule 5.5
(TO NOTE PURCHASE AGREEMENT)

PHILADELPHIA SUBURBAN CORPORATION
Licenses, Permits, Etc.

Pennsylvania Suburban Water Company is in the process of transferring the Pennsylvania environmental permits held by the various Pennsylvania utility subsidiaries of Philadelphia Suburban Corporation that were merged into Pennsylvania Suburban Water Company on January 1, 2001.

SCHEDULE 5.11
(to Note Purchase Agreement)

EXISTING DEBT

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

LONG AND SHORT TERM DEBT

		06/30/03 Balance Outstanding
Illinois	FMB	6,000,000.00
Illinois	FMB	4,500,000.00
Illinois	FMB	8,000,000.00
Illinois	FMB	6,000,000.00
Illinois	Tax Exempt	-
Illinois	Tax Exempt	-
Illinois	Tax Exempt	4,500,000.00
Illinois	Contract	49,400.00
Illinois	Note	1,000,000.00
Illinois	Tax Exempt	2,785,000.00
Illinois	Tax Exempt	9,970,000.00
Illinois	Long-term	42,804,400.00
Maine	FMB-Sink	-
Maine	FMB	9,000,000.00
Maine	Tax Exempt	2,115,000.00
Maine	SRLF	784,000.00
Maine	SRLF	1,148,879.00
Maine	SRLF	120,202.00
Maine	Long-term	13,168,081.00
New Jersey	FMB	4,000,000.00
New Jersey	Tax Exempt	0.00
New Jersey	Tax Exempt	0.00
New Jersey	Tax Exempt	7,500,000.00
New Jersey		475,000.00
New Jersey		1,285,000.00
New Jersey		396,740.13
New Jersey		1,055,962.02
New Jersey		6,000,000.00
New Jersey		5,330,000.00
New Jersey		1,670,000.00
New Jersey	Long-term	27,712,702.15
Ohio	FMB	1,200,000.00
Ohio	FMB	7,022,000.00
Ohio	FMB	7,100,000.00
Ohio	Tax Exempt	-

SCHEDULE 5.15
(to Note Purchase Agreement)

Ohio	Tax Exempt	-
Ohio	Tax Exempt	10,260,000.00
Ohio	Tax Exempt	12,000,000.00

Ohio	Tax Exempt	5,530,000.00
Ohio	Tax Exempt	5,350,000.00
Ohio	Long-term	48,462,000.00
PSW	UTMA Note	1,304,830.00
PA	UTMA Note	1,304,830.00
PSW	Tax Exempt	30,000,000.00
PSW	Tax Exempt	25,000,000.00
PSW	Tax Exempt	-
PSW	Tax Exempt	25,000,000.00
Shenango	Tax Exempt	18,360,000.00
PSW	Tax Exempt	22,000,000.00
PSW	Tax Exempt	14,000,000.00
Roaring Cr	Tax Exempt	-
PSW	Tax Exempt	2,800,000.00
PA	Tax Exempt	25,000,000.00
PA	Tax Exempt	162,160,000.00
Roaring Cr	Penvest	428,290.61
Susquehana	Penvest	151,643.26
Susquehana	Penvest	377,536.49
Shenango	Penvest	569,263.46
Shenango	Penvest	1,306,288.34
PSW	Penvest	696,344.48
PSW	Penvest	65,416.29
NUI	Penvest	3,500,000.00
PSW	Penvest	8,995,195.60
PSW	Penvest	1,656,878.36
PSW	Penvest	1,076,162.86
PSW	Penvest	993,172.76
PSW	Penvest	5,139,605.86
PSW	Penvest	615,465.00
PSW	Penvest	1,028,407.81
PSW	Penvest	1,116,403.57
PSW	Penvest	353,469.35
PSW	Penvest	704,673.48
Fawn Lake	Penvest	-
Western	Penvest	482,416.03
Hawley	Penvest	330,994.80
Hawley	Penvest	677,221.80
Waymart	Penvest	-
Waymart	Penvest	-
Roaring Cr	Penvest	325,084.15
PA	Penvest	30,589,934.36
PSW	FMB	-

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PSW	FMB	10,000,000.00
PSW	FMB	25,000,000.00
PSW	FMB	15,000,000.00
PSW	FMB	10,000,000.00
PSW	FMB	15,000,000.00
PSW	FMB	-
PSW	FMB	10,000,000.00
PSW	FMB	10,000,000.00
PSW	FMB	10,000,000.00
PSW	FMB	12,000,000.00
PSW	FMB	10,000,000.00
PSW	FMB	10,000,000.00
PSW	FMB	10,000,000.00
PSW	FMB	15,000,000.00
PSW	FMB	11,000,000.00
PSW	FMB	10,000,000.00
PSW	FMB	15,000,000.00
Shenango	FMB	4,000,000.00
Susquehana	FMB	1,500,000.00
Shenango	FMB	3,500,000.00
PSW	FMB	20,000,000.00
PSW	FMB	7,600,000.00
PSW	FMB	5,000,000.00
Shenango	FMB	2,340,889.68
PSW	FMB	12,000,000.00
Shenango	FMB	1,320,000.00
Roaring Cr	FMB	4,000,000.00

PSW	FMB	5,000,000.00
PSW	FMB	5,000,000.00
PSW	FMB	5,000,000.00
PA	FMB	274,260,889.68
Fawn Lake	Bank Notes	-
Fawn Lake	Bank Notes	-
Fawn Lake	Bank Notes	-
Fawn Lake	Bank Notes	-
Western	Bank Notes	-
PA	Bank Notes	0.00
PA	Long-term	468,315,654.04
LWW	Note	2775234.99
LWW	Note	1893631.47
LWW	Long-term	4,668,866.46
PSC	Note	788,000.00
PSC	Long-term	788,000.00
Total Long-Term		605,919,703.65
Illinois	Nat City LOC	10,905,000.00
Illinois	CoBank LOC	5,250,000.00

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Illinois	Short-term	16,155,000.00
Maine	Fleet LOC	760,000.00
Maine	CoBank LOC	1,200,000.00
Maine	Short-term	1,960,000.00
New Jersey	CoBank LOC	4,600,000.00
New Jersey	Citizens LOC	1,200,000.00
New Jersey	First Union LOC	-
New Jersey	Short-term	5,800,000.00
Ohio	CoBank LOC	1,700,000.00
Ohio	Nat City LOC	2,700,000.00
Ohio	Short-term	4,400,000.00
PSW	Revolver	9,000,000.00
PSW	Revolver	13,400,000.00
PSW	Revolver	20,800,000.00
PSW	Revolver	8,001,000.00
PSW	Revolver	51,201,000.00
Roaring Creek	Mellon LOC	
Roaring Creek	LOC	
Shenango	Nat City LOC	
Shenango	LOC	
Susquehanna	Mellon LOC	
Susquehanna	LOC	
PA	Short-term	51,201,000.00
CWC	Revolver	11,393,237.00
CWC	Revolver	
CWC	Short-term	11,393,237.00
PSC	PNC LOC	0.00
PSC	PNC LOC	9,000,000.00
PSC	PNC LOC	2,000,000.00
PSC	PNC LOC	11,000,000.00
PSC	Citizens LOC	7,400,000.00
PSC	Citizens LOC	0.00
PSC	Citizens LOC	0.00
PSC	Citizens LOC	7,400,000.00
PSC	Short-term	18,400,000.00
Total Short-term		109,309,237.00
Total L-T and S-T		715,228,940.65
*AquaSource Note	July 31, 2003	90,000,000.00

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[FORM OF NOTE]

PHILADELPHIA SUBURBAN CORPORATION

4.87% SENIOR NOTE, DUE JULY 31, 2023

No. [_____]
\$[_____]

[Date]
PPN 718009 A@ 2

FOR VALUE RECEIVED, the undersigned, PHILADELPHIA SUBURBAN CORPORATION (herein called the "Company"), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, hereby promises to pay to [_____] or registered assigns, the principal sum of [_____] DOLLARS on July 31, 2023 with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 4.87% per annum from the date hereof, payable semi-annually, on the thirty-first day of January and July in each year and at maturity, commencing with the January or July next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreement referred to below), payable semi-annually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 6.87% or (ii) 2% over the rate of interest publicly announced by PNC Bank, N.A. from time to time in New York, New York as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal office of PNC Bank, N.A. in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreement referred to below.

This Note is one of a series of Senior Notes (herein called the "Notes") issued pursuant to the Note Purchase Agreement, dated as of July 31, 2003 (as from time to time amended, the "Note Purchase Agreement"), between the Company and the respective Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreement and (ii) to have made the representation set forth in Section 6.2 of the Note Purchase Agreement.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

EXHIBIT 1
(to Note Purchase Agreement)

The Company will make required prepayments of principal on the dates and in the amounts specified in the Note Purchase Agreement. This Note is also subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise.

If an Event of Default, as defined in the Note Purchase Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the issuer and holder hereof shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

PHILADELPHIA SUBURBAN CORPORATION

By

Name: _____

Title: _____

E-1-2

FORM OF OPINION OF GENERAL COUNSEL
TO THE COMPANY

The closing opinion of Roy H. Stahl, Esq., General Counsel of the Company, which is called for by Section 4.4 of the Note Purchase Agreement, shall be dated the date of Closing and addressed to the Purchasers, shall be satisfactory in scope and form to each Purchaser and shall be to the effect that:

1. The Company has the full corporate power and the corporate authority to conduct the activities in which it is now engaged and is duly licensed or qualified and is in good standing as a foreign corporation in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business transacted by it makes such licensing or qualification necessary except in jurisdictions where the failure to be so qualified or licensed would not have a material adverse effect on the business of the Company.

2. Each Subsidiary is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly licensed or qualified and is in good standing and has valid and subsisting franchises and certificates of conveyance and necessity in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business transacted by it makes such licensing or qualification or the possession of such franchises and certificates of conveyance and necessity necessary except in jurisdictions where the failure to be so qualified or licensed to possess such would not have a material adverse effect on the business of the Subsidiaries and the Company taken as a whole. Except as set forth in Schedule 5.4 to the Note Purchase Agreement, all of the issued and outstanding shares of capital stock of each such Subsidiary have been duly issued, are fully paid and non-assessable and are owned by the Company, by one or more Subsidiaries, or by the Company and one or more Subsidiaries.

3. The issuance and sale of the Notes and the execution, delivery and performance by the Company of the Note Purchase Agreement do not violate any provision of any law or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary or conflict with or result in any breach of any of the provisions of or constitute a default under or result in the creation or imposition of any Lien upon any of the property of the Company pursuant to the provisions of the Articles of Incorporation or By-laws of the Company or any agreement or other instrument known to such counsel to which the Company is a party or by which the Company may be bound.

4. There are no actions, suits or proceedings pending or, to the knowledge of such counsel after due inquiry, threatened against or affecting the Company or any Subsidiary in any court or before any governmental authority or arbitration board or tribunal which are both likely to be, adversely determined, and if so determined would have a materially adverse effect on the properties, business, prospects, profits or condition, (financial or otherwise) of the Company and its Subsidiaries taken as a whole or the ability of the Company to perform its obligations under the Note Purchase Agreement and the Notes or on the legality, validity or enforceability of the Company's obligations under the Note Purchase Agreement or the Notes. To the knowledge of such counsel, neither the Company nor any Subsidiary is in default with respect to any order of any court or governmental authority, or arbitration board or tribunal which default would have a materially adverse effect on the Subsidiaries and the Company taken as a whole.

EXHIBIT 4.4 (a)
(to Note Purchase Agreement)

The opinion of Roy H. Stahl, Esq., shall cover such other matters

relating to the sale of the Notes as each Purchaser may reasonably request. With respect to matters of fact on which such opinion is based, such counsel shall be entitled to rely on appropriate certificates of public officials and other officers of the Company.

E-4.4(a)-2

FORM OF OPINION OF SPECIAL COUNSEL
TO THE COMPANY

The closing opinion of Dilworth Paxson, LLP, special counsel to the Company, which is called for by Section 4.4 of the Note Purchase Agreement, shall be dated the date of Closing and addressed to the Purchasers, shall be satisfactory in scope and form to each Purchaser and shall be to the effect that:

1. The Company is a corporation, duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation, has the corporate power and the corporate authority to execute and perform the Note Purchase Agreement and to issue the Notes and has the full corporate power and the corporate authority to conduct the activities in which it is now engaged.

2. The Note Purchase Agreement constitutes the legal, valid and binding contract of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

3. The Notes constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

4. No approval, consent or withholding of objection on the part of, or filing, registration or qualification with, any governmental body, Federal or state, is necessary in connection with the execution and delivery of the Note Purchase Agreement or the Notes.

5. The issuance, sale and delivery of the Notes under the circumstances contemplated by the Note Purchase Agreement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

6. Neither the issuance of the Notes nor the application of the proceeds of the sale of the Notes will violate or result in a violation of Section 7 of the Securities Exchange Act of 1934, as amended, or any regulation issued pursuant thereto, including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System.

7. The Company is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

EXHIBIT 4.4(b)
(to Note Purchase Agreement)

The opinion of Dilworth Paxson, LLP, shall cover such other matters relating to the sale of the Notes as each Purchaser may reasonably request. With respect to matters of fact on which such opinion is based, such counsel shall be entitled to rely on appropriate certificates of public officials and other officers of the Company.

E-4.4(b)-2

FORM OF OPINION OF SPECIAL COUNSEL
TO THE PURCHASERS

The closing opinion of Chapman and Cutler LLP, special counsel to the Purchasers, called for by Section 4.4 of the Note Purchase Agreement, shall be dated the date of Closing and addressed to each Purchaser, shall be satisfactory in form and substance to each Purchaser and shall be to the effect that:

1. The Company is a corporation, validly existing and in good standing under the laws of its jurisdiction of incorporation and has the corporate power and the corporate authority to execute and deliver the Note Purchase Agreement and to issue the Notes.

2. The Note Purchase Agreement has been duly authorized by all necessary corporate action on the part of the Company, has been duly executed and delivered by the Company and constitutes the legal, valid and binding contract of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

3. The Notes have been duly authorized by all necessary corporate action on the part of the Company, and the Notes being delivered on the date hereof have been duly executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

4. The issuance, sale and delivery of the Notes under the circumstances contemplated by the Note Purchase Agreement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

The opinion of Chapman and Cutler LLP shall also state that the opinions of Roy H. Stahl, Esq., General Counsel to the Company, and Dilworth Paxson, LLP, special Counsel to the Company, are satisfactory in scope and form to Chapman and Cutler LLP and that, in their opinion, the Purchasers are justified in relying thereon. With respect to matters of fact upon which such opinion is based, Chapman and Cutler LLP may rely on appropriate certificates of public officials and officers of the Company and upon representations of the Company and the Purchasers delivered in connection with the issuance and sale of the Notes.

EXHIBIT 4.4(c)
(to Note Purchase Agreement)

In rendering the opinion set forth in paragraph 1 above, Chapman and Cutler LLP may rely, as to matters referred to in paragraph 1, solely upon an examination of the Articles of Incorporation certified by, and a certificate of good standing of the Company from, the Secretary of State of the State of Delaware, the Bylaws of the Company and the general business corporation law of the State of Delaware. The opinion of Chapman and Cutler LLP is limited to the laws of the State of New York, the general business corporation law of the State of Delaware and the Federal laws of the United States.

CREDIT AGREEMENT

THIS CREDIT AGREEMENT (this "Agreement") dated as of July 31, 2003, by and among PHILADELPHIA SUBURBAN CORPORATION, a Pennsylvania corporation (the "Borrower"), the several banks and other financial institutions from time to time parties to this Agreement (the "Banks"), PNC BANK, NATIONAL ASSOCIATION, a national banking association, as administrative agent (in such capacity, the "Agent"), and PNC CAPITAL MARKETS, INC., as lead arranger (in such capacity, the "Lead Arranger").

BACKGROUND

The Borrower has requested that the Banks make Loans (that term and certain other terms are defined in Section 1.1 hereof) to the Borrower, and the Banks severally have agreed to make such Loans on the terms and conditions herein contained. Proceeds of the Loans will be used by the Borrower to finance the acquisition of the stock of the AquaSource Entities (the "AquaSource Acquisition").

NOW, THEREFORE, the parties hereto, in consideration of their mutual covenants and agreements herein set forth and for other consideration, the receipt and sufficiency of which is hereby acknowledged and intending to be legally bound hereby, covenant and agree as follows:

SECTION 1. DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

"Affiliate": any Person (other than a Subsidiary, or an officer, director or employee of the Borrower who would not be an Affiliate but for such Person's status as an officer, director and/or employee) which, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, the Borrower, and any member, director, officer or employee of any such Person or any Subsidiary of the Borrower. For purposes of this definition, "control" shall mean the power, directly or indirectly, either to (i) vote 5% or more of the securities having ordinary voting power for the election of directors of such Person or (ii) direct or in effect cause the direction of the management and policies of such Person whether by contract or otherwise.

"Agreement": this Credit Agreement, as amended, supplemented or otherwise modified from time to time.

"Anti-Terrorism Laws": any Laws relating to terrorism or money laundering, including Executive Order No. 13224, and the USA Patriot Act.

"Applicable Margin": 100 basis points (1.00%) through January 31, 2004, and thereafter increasing by 10 basis points (.10%) effective as of the first day of each month beginning February 1, 2004.

"AquaSource Entities": AquaSource Utility Inc., AquaSource Development Company, The Reynolds Group and AquaSource Operations, Inc.

"Assignment and Acceptance": an assignment and acceptance entered into by a Bank and an assignee, and acknowledged by the Agent, in the form of Exhibit B or such other form as shall be approved by the Agent.

"Base Rate": for any day, a rate per annum (rounded upwards, if necessary, to the next 1/100th of 1%) equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Open Rate in effect on such day plus one half of one percent (0.5%). If for any reason the Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Open Rate for any reason, including the inability or

failure of the Agent to obtain sufficient quotations in accordance with the definition of such term, the Base Rate shall be determined without regard to clause (b) of the first sentence of this definition until the circumstances giving rise to such inability no longer exist. Any change in the Base Rate due to a change in the Prime Rate or the Federal Funds Open Rate shall be effective on the effective date of such change in the Prime Rate or the Federal Funds Open Rate, as the case may be.

"Base Rate Loan": any portion of a Loan bearing interest at a rate determined by reference to the Base Rate.

"Blocked Person": has the meaning assigned to such term in Section 3.21.

"Borrower": as defined in the heading of this Agreement.

"Business Day": a day other than a Saturday, Sunday or other day on which commercial banks in Philadelphia, Pennsylvania are authorized or required by law to close; provided, however, that, when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London Interbank Market.

"Capital Lease": at any time, a lease with respect to which the lessee is required to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"Capital Stock": any and all shares, interests, participations or other equivalents (however designated and whether newly issued or reissued from treasury shares) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants or options to purchase any of the foregoing.

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"Change of Control": an event or series of events by which (a) any "person" or "group" (as such terms are defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder), is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under such Exchange Act, except that a Person shall be deemed to have "beneficial ownership" of all shares that any such Person has the right to acquire without condition, other than passage of time, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 50% of the total voting power of the then outstanding Voting Stock of the Borrower, or (b) from and after the date hereof, individuals who on the date hereof constitute the Board of Directors of the Borrower (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of the Borrower was approved by a vote of a majority of the directors then still in office who were either directors on the date hereof or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of the Borrower then in office.

"Closing": as defined in Section 4.2.

"Closing Date": as defined in Section 4.2.

"Code": the Internal Revenue Code of 1986, as amended from time to time.

"Commitment": as to any Bank, the obligation of such Bank to make a Loan to the Borrower hereunder in the principal amount not to exceed the amount set forth opposite such Bank's name on Schedule I.

"Commonly Controlled Entity": an entity, whether or not incorporated, which is under common control with the Borrower within the meaning of Section 4001 of ERISA or is part of a group which includes the Borrower and which is treated as a single employer under Section 414 of the Code.

"Consolidated EBIT": for any period, Consolidated Net Income for such period, plus the amount of income taxes and interest expense deducted from earnings in determining such Consolidated Net Income.

"Consolidated Funded Debt": at any time, all Debt of the Borrower

determined on a consolidated basis consisting of, without duplication (a) borrowed money Debt, including without limitation capitalized lease obligations; (b) reimbursement obligations in respect of letters of credit, bank guarantees and the like; and (c) Debt in the nature of a Contingent Obligation, whether or not required to be reflected on a balance sheet of the Borrower in accordance with GAAP.

"Consolidated Interest Expense": for any period, the amount of cash interest expense deducted from earnings of the Borrower in determining Consolidated Net Income for such period in accordance with GAAP.

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"Consolidated Net Income": for any fiscal period, net earnings (or loss) after income and other taxes computed on the basis of income of the Borrower for such period determined on a consolidated basis in accordance with GAAP, but excluding:

- (a) the amount of any extraordinary items included in such calculation of net earnings (or loss);
- (b) any gain or loss resulting from the write-up or write-off of fixed assets;
- (c) earnings of any Subsidiary accrued prior to the date it became a Subsidiary;
- (d) earnings of any Person, substantially all assets of which have been acquired in any manner, realized by such Person prior to the date of such acquisition; and
- (e) any gain arising from the acquisition of any Securities of the Borrower or any Subsidiary thereof.

"Consolidated Shareholders' Equity": at a particular date, the net book value of the shareholders' equity of the Borrower as would be shown on a consolidated balance sheet at such time determined in accordance with GAAP.

"Contingent Obligation": with respect to any Person (for the purpose of this definition, the "Obligor") any obligation (except the endorsement in the ordinary course of business of instruments for deposit or collection) of the Obligor guaranteeing or in effect guaranteeing any indebtedness of any other Person (for the purpose of this definition, the "Primary Obligor") in any manner, whether directly or indirectly, including (without limitation) indebtedness incurred through an agreement, contingent or otherwise, by the Obligor:

- (a) to purchase such indebtedness of the Primary Obligor or any Property or assets constituting security therefor;
- (b) to advance or supply funds
 - (i) for the purpose of payment of such indebtedness (except to the extent such indebtedness otherwise appears on Borrower's balance sheet as indebtedness), or
 - (ii) to maintain working capital or other balance sheet condition or any income statement condition of the Primary Obligor or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation; or
- (c) to lease Property or to purchase Securities or other Property or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of the Primary Obligor to make payment of the indebtedness or obligation.

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For purposes of computing the amount of any Contingent Obligation, in connection with any computation of indebtedness or other liability, it shall be assumed

that, without duplication, the indebtedness or other liabilities of the Primary Obligor that are the subject of such Contingent Obligation are direct obligations of the issuer of such Obligation.

"Contractual Obligation": as to any Person, any provision of any Security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"Debt": with respect to any Person, at any time, without duplication, all of (i) its liabilities for borrowed money, (ii) liabilities secured by any Lien existing on property owned by such Person (whether or not such liabilities have been assumed), (iii) its liabilities in respect to Capital Leases; (iv) its liabilities under Contingent Obligations; and (v) all other obligations which are required by GAAP to be shown as liabilities on its balance sheet but excluding (x) deferred taxes and other deferred or long-term liabilities and other amounts not in respect of borrowed money; (y) the aggregate amount of accounts receivable sold, factored or otherwise transferred for value without recourse (other than for breach of representations) and (z) current trade accounts payable incurred in the ordinary course of business.

"Debt to Capitalization Ratio" for any period, the ratio of (i) Consolidated Funded Debt to (ii) Total Capitalization.

"Default": any of the events specified in Section 7, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition precedent therein set forth, has been satisfied.

"Distribution": in respect of any corporation, (a) dividends, distributions or other payments on account of any capital stock of the corporation (except distributions in common stock of such corporation); (b) the redemption or acquisition of such stock or of warrants, rights or other options to purchase such stock (except when solely in exchange for common stock of such corporation); and (c) any payment on account of, or the setting apart of any assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of any share of any class of capital stock of such corporation or any warrants or options to purchase any such stock.

"Dollars" and "\$": dollars in lawful currency of the United States of America.

"Environmental Laws": any and all applicable foreign, Federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees or binding requirements of any Governmental Authority, or binding Requirement of Law (including common law) regulating, relating to or imposing liability or standards of conduct concerning protection of the environment, as now or may at any time hereafter be in effect.

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"Equity Issuance": the issuance of any common or preferred equity and any issuance of both primary shares or shares re-issued from treasury stock, including any convertible or other hybrid financing having substantially the same effect.

"ERISA": the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Eurocurrency Reserve Requirements": for any day as applied to a Eurodollar Loan, the aggregate (without duplication) of the rates (expressed as a decimal fraction) of reserve requirements in effect on such day (including, without limitation, basic, supplemental, marginal and emergency reserves under any regulations of the Board of Governors of the Federal Reserve System or other Governmental Authority having jurisdiction with respect thereto) dealing with reserve requirements prescribed for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of such Board) maintained by a member bank of such System.

"Eurodollar Base Rate": with respect to any Eurodollar Loans for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to the rate determined by the Agent in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the average of the London interbank offered rates of

interest per annum for Dollars set forth on Telerate display page 3750 or such other display page on the Telerate System as may replace such page to evidence the average of rates quoted by banks designated by the British Bankers' Association (or appropriate successor, or if the British Bankers' Association or its successor ceases to provide such quotes, a comparable replacement determined by the Agent), for an amount approximately equal in principal amount to the amount of such Eurodollar Loans.

"Eurodollar Loan": any portion of a Loan bearing interest at a rate determined by reference to the Eurodollar Rate in accordance with the provisions of Section 2.

"Eurodollar Rate": with respect to each Interest Period pertaining to a Eurodollar Loan, a rate per annum determined in accordance with the following formula (rounded upward to the nearest 1/100th of 1%):

$$\frac{\text{Eurodollar Base Rate}}{1.00} - \text{Eurocurrency Reserve Requirements}$$

"Event of Default": any of the events specified in Section 7, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Executive Order No. 13224": Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

"Federal Funds Effective Rate": for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the day of such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it.

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"Federal Funds Open Rate": for any day, the rate per annum determined by the Agent in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the Open Rate for federal funds transactions as of the opening of business for federal funds transactions among members of the Federal Reserve System arranged by federal funds brokers on such day, as quoted by Garvin Guybutler, any successor entity thereto, or any other broker selected by the Agent, as set forth on the applicable Telerate display page; provided, however, that if such day is not a Business Day, the Federal Funds Open Rate for such day shall be the Open Rate on the immediately preceding Business Day, or if no such rate shall be quoted by a federal funds broker at such time, such other rate as determined by the Agent in accordance with its usual procedures.

"Fee Letter": the letter dated June 26, 2003, from the Agent and the Lead Arranger to the Borrower relating to the payment of certain fees and expenses in connection with the transactions contemplated hereby, as amended, supplemented or otherwise modified from time to time.

"Fees": as defined in subsection 2.3(a).

"GAAP": at any time with respect to the determination of the character or amount of any asset or liability or item of income or expense, or any consolidation or other accounting computation, generally accepted accounting principles as applied to the public utility industry, as such principles shall be in effect on the date of, or at the end of the period covered by, the financial statements from which such asset, liability, item of income, or item of expense, is derived, or, in the case of any such computation, as in effect on the date when such computation is required to be determined, subject to Section 1.3(b).

"Governmental Authority": any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Insolvency": with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of Section 4245 of ERISA.

"Insolvent": pertaining to a condition of Insolvency.

"Interest Coverage Ratio": at the date of determination, the ratio of Consolidated EBIT to Consolidated Interest Expense, in each case for the prior four (4) consecutive fiscal quarters.

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"Interest Payment Date": (a) as to any Base Rate Loan, the last day of each month, (b) as to any Eurodollar Loan having an Interest Period of three months or less, the last day of such Interest Period, and (c) as to any Eurodollar Loan having an Interest Period longer than three months, each day which is three months, or a whole multiple thereof, after the first day of such Interest Period and the last day of such Interest Period.

"Interest Period": with respect to any Eurodollar Loan:

(a) initially the period commencing on the conversion date with respect to such Eurodollar Loan and ending one, three or six months thereafter, as selected by the Borrower in its notice of conversion, given with respect thereto; and

(b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loan and ending one, three or six months thereafter, as selected by the Borrower by irrevocable notice to the Agent not less than three Business Days prior to the last day of the then current Interest Period with respect thereto;

provided that, the foregoing provisions relating to Interest Periods are subject to the following:

(i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month;

(iii) an Interest Period that otherwise would extend beyond the Maturity Date shall end on the Maturity Date; and

(iv) the Borrower shall select Interest Periods so as not to require a payment or prepayment of any Eurodollar Loan during an Interest Period for such Eurodollar Loan.

"Investments": investments (by loan or extension of credit, purchase, advance, guaranty, capital contribution or otherwise) made in cash or by delivery of Property, by the Borrower (i) in any Person, whether by acquisition of stock or other ownership interest, indebtedness or other obligation or Security, or by loan, advance or capital contribution, or (ii) in any Property or (iii) any agreement to do any of the foregoing.

"Lien": any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or other security interest or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement and any Capital Lease having substantially the same economic effect as any of the foregoing).

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"Loan": the term loan made by each Bank to the Borrower pursuant to Section 2.1 hereof and "Loans" shall be the collective reference to all such term loans.

"Loan Documents": this Agreement and the Notes and any other instruments, certificates or documents delivered or contemplated to be delivered hereunder or in connection herewith.

"Material Adverse Effect": a material adverse effect on (a) the validity or enforceability of this Agreement or any other Loan Document, (b) the business, prospects, Property, assets, financial condition, results of operations or prospects of the Borrower, (c) the ability of the Borrower duly and punctually to pay its Debts and perform its obligations hereunder, or (d) the ability of the Agent or any of the Banks, to the extent permitted, to enforce their legal remedies pursuant to this Agreement or any other Loan Document.

"Materials of Environmental Concern": any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Law, including, without limitation, asbestos, polychlorinated biphenyls, and ureaformaldehyde insulation.

"Maturity Date": July 30, 2004.

"Moody's": Moody's Investors Service, Inc.

"Multiemployer Plan": a Plan which is a multiemployer plan as defined in Section 4001(a) (3) of ERISA.

"Net Proceeds": (a) with respect to any Equity Issuance by the Borrower, the net amount equal to (i) the aggregate amount received in cash in connection with such sale or issuance minus (ii) the reasonable fees, commissions and other out-of-pocket expenses incurred by the Borrower in connection with such sale or issuance; and (b) with respect to the incurrence by the Borrower of any indebtedness for borrowed money (other than under operating lines of credit), the net amount equal to (i) the aggregate amount received in cash from the incurrence of such indebtedness minus (ii) the sum of (A) the principal amount of any Debt which is promptly repaid in connection with such incurrence (i.e., a refinancing) and (B) the reasonable fees, commissions and other out-of-pocket expenses incurred by the Borrower payable in connection with such incurrence to Persons other than an Affiliate of the Borrower.

"Note": a promissory note of the Borrower in the form of Exhibit A issued to a Bank, as the same may be amended, supplemented or otherwise modified from time to time and "Notes" shall be the collective reference to all such promissory notes issued to the Banks.

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"Participant": as defined in Section 9.6(f).

"PBGC": the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA.

"Permitted Acquisition": an acquisition by the Borrower of the stock or assets of a Person engaged in businesses similar or incidental or ancillary to Borrower's or any Subsidiary's existing business, provided that at least 30 days prior to the consummation of any such acquisition for which cash consideration paid by the Borrower (including the assumption of Debt in connection therewith) exceeds \$25,000,000, no Default or Event of Default shall exist or would exist if such acquisition were consummated on such date (assuming for purposes of the covenants contained in Section 6.1 that pro forma adjustments are made to the financial statements of the Borrower reflecting such acquisition; provided, that historical EBIT of the Person to be acquired (or the assets of which are to be acquired) shall be included for purposes of calculating such covenant compliance only if historical financial statements of such Person are received by the Agent at least 30 days prior to the consummation of such acquisition), and the Borrower shall have delivered to the Agent a certificate of a Responsible Officer showing calculations in reasonable detail demonstrating such pro forma compliance with the covenants contained in Section 6.1, and provided further, that any such acquisition for which cash consideration paid by the Borrower (including the assumption of Debt in connection therewith) exceeds \$50,000,000, shall also have been consented to by the Required Banks.

"Permitted Investments": Investments in:

(a) one or more Subsidiaries thereof;

(b) current assets arising from the sale or purchase of goods and services in the ordinary course of business of the Borrower;

(c) direct obligations of the United States of America, or any agency or instrumentality thereof or obligations guaranteed by the United States of America, provided that such obligations mature within one (1) year from the date of acquisition thereof;

(d) certificates of deposit, time deposits or banker's acceptances, maturing within one (1) year from the date of acquisition, with banks or trust companies organized under the laws of the United States, the unsecured long-term debt obligations of which are rated "A3" or higher by Moody's or "A-" or higher by S&P, and issued, or in the case of banker's acceptance, accepted, by a bank or trust company having capital, surplus and undivided profits aggregating at least \$250,000,000;

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(e) commercial paper given the highest rating by either S&P or Moody's maturing not more than 270 days from the date of creation thereof;

(f) mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 that hold themselves out as "money market funds"; and

(g) other loans, advances and investments not exceeding in the aggregate \$5,000,000 at any one time outstanding.

"Person": an individual, partnership, corporation, business trust, joint stock company, limited liability company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Plan": at a particular time, any employee benefit plan which is covered by ERISA and in respect of which the Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"PNC": PNC Bank, National Association, a national banking association.

"Prime Rate": the rate of interest per annum announced from time to time by PNC as its prime rate in effect at its principal office in Philadelphia, Pennsylvania; each change in the Prime Rate shall be effective on the date such change is announced as effective.

"Property": any interest in any kind of property or asset, whether real, personal or mixed, and whether tangible or intangible.

"Pro-Rata Percentage": as to any Bank at any time, the proportion (expressed as a percentage) that such Bank's Commitment bears to the Total Commitment or, at any time after the Loans have been made, the percentage which the amount of such Bank's outstanding Loan constitutes of the aggregate amount of the Loans of the Banks then outstanding.

"Purchase Agreement": that certain Purchase Agreement dated as of July 29, 2002, between the Borrower and Aqua Acquisition Corporation, and Aqua Source, Inc. and DQE, Inc., as the same may be amended, supplemented or otherwise modified from time to time.

"Purchase Money Security Interest": Liens upon tangible personal property securing loans to the Borrower or deferred payments by the Borrower for the purchase of such tangible personal property, in each case securing amounts which do not exceed the purchase price of the property subject to such security interests.

"Regulation U": Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect, and all official rulings and interpretations thereunder or thereof.

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"Regulation X": Regulation X of the Board of Governors of the Federal Reserve System as from time to time in effect, and all official rulings and interpretations thereunder or thereof.

"Reorganization": with respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of Section 4241 of ERISA.

"Reportable Event": any of the events set forth in Section 4043(b) of ERISA, except to the extent that notice thereof has been waived by the PBGC.

"Required Banks": at any time, (a) Banks whose Pro Rata Percentages aggregate at least 51%, or (b) if there are only two Banks which have outstanding Loans, both Banks.

"Requirement of Law": as to any Person, the Certificate of Incorporation, By-Laws, Operating Agreement or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Responsible Officer": the chief financial officer, treasurer or controller of the Borrower.

"S&P": Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

"Security": "security" as defined in Section 2(1) of the Securities Act of 1933, as amended.

"Single Employer Plan": any Plan which is covered by Title IV of ERISA, but which is not a Multiemployer Plan.

"Solvent": as to any Person, as of the time of determination, the financial condition under which the following conditions are satisfied:

(a) the fair market value of the assets of such Person will exceed the debts and liabilities, subordinated, contingent or otherwise, of such Person; and

(b) the present fair saleable value of the Property of such Person will be greater than the amount that will be required to pay the probable liability of such Person on its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; and

(c) such Person will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and

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(d) such Person will not have unreasonably small capital with which to conduct the businesses in which it is engaged as such businesses are then conducted and are proposed to be conducted after the date thereof.

"Subordinated Debt": at any time, all Debt of the Borrower subordinated to all of the obligations of the Borrower to the Banks on terms satisfactory to the Banks.

"Subsidiary": as to any Person, (i) any corporation, limited liability company, company or trust of which 50% or more (by number of shares or number of votes) of the outstanding capital stock, interests, shares or similar items of beneficial interest normally entitled to vote for the election of one or more directors, managers or trustees (regardless of any contingency which does or may suspend or dilute the voting rights) is at such time owned directly or indirectly by such person or one or more of such Person's Subsidiaries, or any partnership of which such Person is a general partner or of which 50% or more of the partnership interests is at the time directly or indirectly owned by such Person or one or more of such Person's Subsidiaries, and (ii) any corporation, company, trust, partnership or other entity which is controlled or capable of

being controlled by such Person or one or more of such Person's subsidiaries. Unless otherwise indicated, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary of the Borrower.

"Total Capitalization": at any period, the sum of (i) Consolidated Shareholders' Equity plus (ii) Consolidated Funded Debt.

"Total Commitment": at any time, the aggregate amount of the Banks' Commitments, as in effect at such time.

"Tranche": the collective reference to Eurodollar Loans whose Interest Periods begin on the same date and end on the same later date.

"USA Patriot Act": the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, as the same has been, or shall hereafter be renewed, extended, amended or replaced.

"Voting Stock": capital stock of any class or classes of a corporation the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the directors (or Persons performing similar functions) and, as applicable, any equity, participation or ownership interests in any partnership, business trust, joint stock company, limited liability company, trust, unincorporated association, joint venture or any other Person which interests are similar by analogy to capital stock or ownership rights giving rise to voting or governance rights.

1.2 Other Definitional Provisions. (a) Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the Notes or any certificate or other document made or delivered pursuant hereto.

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(b) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, subsection, Schedule and Exhibit references are to this Agreement unless otherwise specified.

1.3 Construction. (a) Unless the context of this Agreement otherwise clearly requires, references to the plural include the singular, the singular the plural and the part the whole, "or" has the inclusive meaning represented by the phrase "and/or," and "including" has the meaning represented by the phrase "including without limitation." References in this Agreement to "determination" of or by the Agent or the Banks shall be deemed to include good faith estimates by the Agent or the Banks (in the case of quantitative determinations) and good faith beliefs by the Agent or the Banks (in the case of qualitative determinations). Whenever the Agent or the Banks are granted the right herein to act in their sole discretion or to grant or withhold consent such right shall be exercised in good faith, except as otherwise provided herein. Except as otherwise expressly provided, all references herein to the "knowledge of" or "best knowledge of" the Borrower shall be deemed to refer to the knowledge of a Responsible Officer thereof. The words "hereof," "herein," "hereunder", "hereby" and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. The section and other headings contained in this Agreement and the Table of Contents preceding this Agreement are for reference purposes only and shall not control or affect the construction of this Agreement or the interpretation thereof in any respect. Section, subsection, schedule and exhibit references are to this Agreement unless otherwise specified.

(b) Except as otherwise provided in this Agreement, all computations and determinations as to accounting or financial matters and all financial statements to be delivered pursuant to this Agreement shall be made and prepared in accordance with GAAP (including principles of consolidation where appropriate). As used herein and in the Notes, and any certificate or other document made or delivered pursuant hereto, accounting terms relating to the Borrower and any Subsidiary thereof not defined in subsection 1.1 and accounting terms partly defined in subsection 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP. In the event that any future change in GAAP, without more, materially affects the Borrower's compliance with any financial covenant herein, the Borrower, the Banks and the Agent shall use their best efforts to modify such covenant in order to account for such change

and to secure for the Banks the intended benefits of such covenant.

SECTION 2. THE LOANS

2.1 Loans. Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Bank, severally and not jointly, agrees to make a Loan to the Borrower in the amount of such Bank's Commitment; provided, however, that the failure of any Bank to make its Loan shall not in itself relieve any other Bank of its obligation to lend hereunder (it being understood, however, that no Bank shall be responsible for the failure of any other Bank to make a Loan required to be made by such other Bank). The Loans shall initially be Base Rate Loans, provided that they may be converted to Eurodollar Loans in accordance with the provisions of this Agreement. Each Loan shall be made on the Closing Date. Each Bank's Commitment shall terminate upon the making of its Loan and the Borrower may not reborrow any amount of the Loan which has been repaid.

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2.2 General Provisions Regarding Loans. (a) Each Bank shall make the Loan to be made by it hereunder on the Closing Date by wire transfer of immediately available funds to the Agent in Philadelphia, Pennsylvania, not later than 1:00 p.m., Philadelphia time, and the Agent shall by 3:00 p.m., Philadelphia time, credit the amounts so received to the general deposit account of the Borrower with the Agent or, if the Loans shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Banks. Unless the Agent shall have received notice from a Bank prior to the Closing Date that such Bank will not make available to the Agent such Bank's Loan, the Agent may assume that such Bank has made such Loan available to the Agent on the Closing Date in accordance with this paragraph (c) and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have made such Loan available to the Agent, such Bank and the Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent at (i) in the case of the Borrower, the interest rate applicable at the time to the Loans and (ii) in the case of such Bank, the Federal Funds Effective Rate. If such Bank shall repay to the Agent such corresponding amount, such amount shall constitute such Bank's Loan for purposes of this Agreement.

(b) All conversions and continuations of Loans hereunder and all selections of Interest Periods hereunder shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, (A) the aggregate principal amount of the portion of the Loans comprising each Tranche of Eurodollar Loans shall be equal to \$500,000 or a whole multiple of \$100,000 in excess thereof and (B) the Borrower shall not have outstanding at any one time more than in the aggregate five (5) separate Tranches of Eurodollar Loans.

2.3 Fees. (a) The Borrower agrees to pay to the Agent for its and each Bank's account, as applicable, administrative, closing and other fees at the times and in the amounts set forth in the Fee Letter (collectively, the "Fees").

(b) All fees payable pursuant to this Section 2.3 shall be paid on the dates due, in immediately available funds, to the Agent. Once paid, none of such fees shall be refundable under any circumstances.

2.4 Notes; Repayment of Loans. The Loan made by each Bank shall be evidenced by a single Note duly executed on behalf of the Borrower, dated the Closing Date, in substantially the form attached hereto as Exhibit A with the blanks appropriately filled, payable to such Bank in a principal amount equal to the Loan made by such Bank. Each Note shall bear interest from the date thereof on the outstanding principal balance thereof as set forth in Section 2.5. Each Bank shall, and is hereby authorized by the Borrower to, endorse on the schedule attached to the relevant Note held by such Bank (or on a continuation of such schedule attached to each such Note and made a part thereof), or otherwise to record in such Bank's internal records, an appropriate notation evidencing the date and amount of the Loan of such Bank, each payment or prepayment of principal of the Loan, and the other information provided for on such schedule; provided, however, that the failure of any Bank to make such a notation or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loan made by such Bank in accordance with the terms of the relevant Note. The outstanding principal balance of each Loan, as evidenced by the

relevant Note, shall be payable on the Maturity Date and is subject to optional and mandatory prepayment as provided in Section 2.7.

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2.5 Interest on Loans. (a) Subject to the provisions of Section 2.6, each Base Rate Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be) at a rate per annum equal to the Base Rate.

(b) Subject to the provisions of Section 2.6, each Eurodollar Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Eurodollar Rate for the Interest Period in effect for such Eurodollar Loan plus the Applicable Margin.

(c) Interest on each Loan shall be payable on each Interest Payment Date applicable to such Loan; provided that, interest accruing on overdue amounts pursuant to Section 2.6 shall be payable on demand as provided in the Notes. The Eurodollar Rate and the Base Rate shall be determined by the Agent, and such determination shall be conclusive absent error.

2.6 Default Rate; Additional Interest; Alternate Rate of Interest. (a) To the extent not contrary to any Requirement of Law, upon the occurrence and during the continuation of an Event of Default, any principal, past due interest, fee or other amount outstanding hereunder shall, at the option of the Required Banks, bear interest for each day thereafter until paid in full (after as well as before judgment) at a rate per annum which shall be equal to two percent (2%) above the Base Rate (but in no event shall any such rate exceed the maximum rate permitted by any Requirement of Law). The Borrower acknowledges that such increased interest rate reflects, among other things, the fact that such loans or other amounts have become a substantially greater risk given their default status and that the Banks are entitled to additional compensation for such risk.

(b) In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Loan, the Agent shall have determined (which determination absent manifest error shall be conclusive and binding upon the Borrower) that dollar deposits in the principal amount of such Eurodollar Loan are not generally available in the London Interbank Market, or that the rate at which such dollar deposits are being offered will not adequately and fairly reflect the cost to the Banks of making or maintaining the principal amount of such Eurodollar Loan during such Interest Period, or that reasonable means do not exist for ascertaining the Eurodollar Rate, the Agent shall, as soon as practicable thereafter, give written, telegraphic or telephonic notice of such determination to the Borrower and the Banks, and any request by the Borrower for a Eurodollar Loan or for conversion to or maintenance of a Eurodollar Loan pursuant to the terms of this Agreement shall be deemed a request for a Base Rate Loan. After such notice shall have been given and until the circumstances giving rise to such notice no longer exist, each request for a Eurodollar Loan shall be deemed to be a request for a Base Rate Loan. Each determination by the Agent hereunder shall be conclusive absent manifest error.

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2.7 Optional and Mandatory Prepayments of Loans. (a) The Borrower shall have the right at any time and from time to time to prepay the Loans, in whole or in part, without premium or penalty (but in any event subject to Section 2.11), upon prior written, telecopy or telephonic notice to the Agent given no later than 11:00 a.m., Philadelphia time, one Business Day before any proposed prepayment; provided, however, that each such partial prepayment of Loans shall be in the principal amount of at least \$500,000 or in multiples of \$100,000 in excess thereof.

(b) The Borrower shall pay to the Agent monthly installments, each in the amount of \$750,000, on the last day of each month beginning February 28, 2004, which shall be applied by the Agent to the prepayment of the Loans then outstanding, without premium or penalty (but in any event subject to Section 2.11).

(c) Promptly upon receipt by the Borrower of any Net Proceeds from any Equity Issuance by the Borrower or the incurrence after the date hereof

by the Borrower of indebtedness for borrowed money (other than under operating lines of credit), the Borrower shall pay to the Agent 100% of such Net Proceeds. Such payments shall be applied by the Agent to the prepayment of the Loans then outstanding, without premium or penalty (but in any event subject to Section 2.11) with such payments being applied to reduce the installments of principal in inverse order of maturity. The Borrower shall give the Agent no later than 11:00 a.m., Philadelphia time, one Business Day's prior written, telecopy or telephonic notice of each prepayment pursuant to this clause (b) setting forth the date and expected amount thereof. All prepayments of the Loans under this clause (b) shall be applied to Base Rate Loans then outstanding and the balance, if any, shall be applied to Eurodollar Loans then outstanding, with payments applied to Eurodollar Loans being applied in order of next maturing Interest Periods.

(d) Promptly following demand of the Agent at any time on or after the occurrence of a Change of Control, the Borrower shall prepay the Loans in full without premium or penalty (but in any event subject to Section 2.11).

(e) Each required notice of prepayment shall specify the prepayment date and the principal amount of the Loans to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Loans (or portion thereof) by the amount stated therein. All prepayments under this Section on other than Base Rate Loans shall be accompanied by accrued interest on the principal amount being prepaid to the date of prepayment. No prepayments of the Loans, whether optional or mandatory, may be reborrowed by the Borrower.

2.8 Illegality. Notwithstanding any other provision herein, if any change in any Requirement of Law or in the interpretation or application thereof shall make it unlawful for any Bank to make or maintain Eurodollar Loans as contemplated by this Agreement, (a) the commitment of such Bank hereunder to make Eurodollar Loans, continue Eurodollar Loans as such and convert Base Rate Loans to Eurodollar Loans shall forthwith be cancelled and (b) the portion of such Bank's Loan then outstanding as Eurodollar Loans, if any, shall be converted automatically to Base Rate Loans on the respective last days of the then current Interest Periods with respect to such Loan or within such earlier period as required by law. If any such conversion of a Eurodollar Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, the Borrower shall pay to such Bank such amounts, if any, as may be required pursuant to Section 2.11.

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2.9 Requirements of Law. (a) In the event that any change in any Requirement of Law or in the interpretation, or application thereof or compliance by any Bank with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall subject any Bank to any tax of any kind whatsoever with respect to this Agreement, any Note or any Eurodollar Loan made by it, or change the basis of taxation of payments to such Bank in respect thereof (except for taxes covered by Section 2.12 and changes in the rate of tax on the overall net income, gross receipts or revenue of such Bank);

(ii) shall impose, modify or hold applicable any reserve, special deposit or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Bank which is not otherwise included in the determination of the interest rate on such Eurodollar Loan hereunder; or

(iii) shall impose on such Bank any other condition;

and the result of any of the foregoing is to increase the cost to such Bank, by an amount which such Bank reasonably deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans or to reduce any amount receivable hereunder in respect thereof then, in any such case, the Borrower shall as promptly as practicable pay such Bank, upon its demand, any additional amounts necessary to compensate such Bank for such increased cost or reduced amount receivable; provided, that the Borrower shall not be liable for any such amounts incurred by such Bank more than 180 days prior to the date of such Bank's notification to the Borrower. If any Bank becomes entitled to claim any additional amounts pursuant to this subsection, it shall as promptly as practicable notify the Borrower, through the Agent, of the event by reason of

which it has become so entitled. A certificate describing in reasonable detail the determination of any additional amounts payable pursuant to this subsection submitted by such Bank, through the Agent, to the Borrower shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder. If any amount is refunded to such Bank, such Bank will reimburse Borrower for amounts paid in respect of the refunded amount.

(b) In the event that any Bank shall have determined that any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by such Bank or any corporation controlling such Bank with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof does or shall have the effect of reducing the rate of return on such Bank's or such corporation's capital as a consequence of its obligations hereunder to a level below that which such Bank or such corporation could have achieved but for such change or compliance (taking into consideration such Bank's or such corporation's policies with respect to capital adequacy) by an amount reasonably deemed by such Bank to be material, then from time to time, after submission as promptly as practicable by such Bank to the Borrower (with a copy to the Agent) of a written request therefor, the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such reduction.

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(c) Each Bank agrees that it will use reasonable efforts in order to avoid or to minimize, as the case may be, the payment by the Borrower of any additional amount under subsections 2.9(a) and (b); provided, however, that no Bank shall be obligated to incur any expense, cost or other amount in connection with utilizing such reasonable efforts. Notwithstanding any other provision of this Section 2.9, no Bank shall apply the provisions of subsections 2.9(a) or (b) hereof with respect to the Borrower if it shall not at the time be the general policy or practice of the Bank exercising its rights hereunder to apply the provisions similar to those of this Section 2.9 to other Borrower in substantially similar circumstances under substantially comparable provisions of other credit agreements.

2.10 Taxes. (a) All payments made by the Borrower under this Agreement and the Notes shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding, in the case of the Agent and each Bank, net income taxes and franchise or gross receipts taxes (imposed in lieu of net income taxes) imposed on the Agent or such Bank, as the case may be, as a result of a present or former connection between the jurisdiction of the government or taxing authority imposing such tax and the Agent or such Bank or any political subdivision or taxing authority thereof or therein (all such non-excluded taxes, levies, imposts, duties, charges, fees, deductions and withholdings being hereinafter called "Taxes"). Except as provided in Section 2.10(c) and the penultimate sentence of this Section 2.10(a), if any Taxes are required to be withheld from any amounts payable to the Agent or any Bank hereunder or under the Notes, the amounts so payable to the Agent or such Bank shall be increased to the extent necessary to yield to the Agent or such Bank (after payment of all Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement and the Notes. Whenever any Taxes are payable by the Borrower, as promptly as possible thereafter the Borrower shall send to the Agent for its own account or for the account of such Bank, as the case may be, a certified copy of an original official receipt received by the Borrower showing payment thereof. If the Borrower fails to pay any Taxes when due to the appropriate taxing authority or fails to remit to the Agent the required receipts or other required documentary evidence, the Borrower shall indemnify the Agent and the Banks for any incremental taxes, interest or penalties that may become payable by the Agent or any Bank as a result of any such failure. If as a result of a payment by the Borrower of Taxes pursuant to this subsection a Bank receives a tax benefit or tax savings such as by receiving a credit against, refund of, or reduction in Taxes which such Bank would not have received but for the payment by the Borrower of Taxes pursuant to this subsection, then such Bank shall promptly pay to the Borrower the amount of such credit, refund, reduction or any other similar item. The agreements in this subsection shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

(b) Each Bank that is not incorporated under the laws of the United States of America or a state thereof agrees that it will deliver to the Borrower and the Agent (i) two duly completed copies of United States Internal Revenue Service Form W-8ECI or W-8BEN or W-8IMY or successor applicable form, as the case may be, and (ii) an Internal Revenue Service Form W-8 or W-9 or successor applicable form. Each such Bank also agrees to deliver to the Borrower and the Agent two further copies of the said Form W-8ECI or W-8BEN or W-8IMY and Form W-8 or W-9, or successor applicable forms or other manner of certification, as the case may be, on or before the date that any such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form previously delivered by it to the Borrower, and such extensions or renewals thereof as may reasonably be requested by the Borrower or the Agent, unless in any such case an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Bank from duly completing and delivering any such form with respect to it and such Bank so advises the Borrower and the Agent. Such Bank shall certify (i) in the case of a Form W-8ECI or W-8BEN or W-8IMY, that it is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes and (ii) in the case of a Form W-8 or W-9, that it is entitled to an exemption from United States backup withholding tax. Each Bank shall deliver to the Borrower and the Agent, with respect to Taxes imposed by any Governmental Authority other than the United States of America, similar forms, if available (or the information that would be contained in similar forms if such forms were available), to the forms which are required to be provided under this subsection with respect to Taxes of the United States of America.

(c) The Borrower shall not be required to pay any additional amounts to the Agent or any Bank in respect of payments of United States withholding tax or other Taxes made by the Borrower which are consistent with the forms and information delivered to the Borrower and the Agent or if the payment of such amounts would not have arisen but for a failure by the Agent or such Bank to comply with the requirements of subsection 2.10(b) or the Agent or such Bank did not timely deliver to the Borrower the forms listed or described in subsection 2.10(b) or did not take such other steps as reasonably may be available to it under applicable tax laws and any applicable tax treaty or convention to obtain an exemption from, or reduction (to the lowest applicable rate) of, such United States withholding tax and other Taxes or, if such steps were taken, the information was not timely and duly delivered to Borrower.

2.11 Indemnity. The Borrower agrees to indemnify each Bank and to hold each Bank harmless from any loss or expense which such Bank may sustain or incur as a consequence of (a) default by the Borrower in payment when due of the principal amount of or interest on any Eurodollar Loan, (b) default by the Borrower in making a borrowing of, conversion into or continuation of Eurodollar Loans after the Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (c) default by the Borrower in making any prepayment after the Borrower has given a notice thereof in accordance with the provisions of this Agreement or (d) the making of a prepayment of Eurodollar Loans on a day which is not the last day of an Interest Period with respect thereto, including, without limitation, in each case, any such loss or expense arising from the reemployment of funds obtained by it or from fees payable to terminate the deposits from which such funds were obtained. This covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

2.12 Pro Rata Treatment, etc. Except as required under Section 2.8, each Borrowing, each payment or prepayment of principal of the Loans, each payment of interest on the Loans, and each conversion of Loans shall be made pro rata among the Banks in accordance with their respective Pro-Rata Percentages.

2.13 Payments. (a) The Borrower shall make each payment (including principal of or interest on any Loan or any Fees or other amounts) hereunder not later than 12:00 (noon), Philadelphia time, on the date when due in Dollars to the Agent at its offices at 1600 Market Street, Philadelphia, Pennsylvania, or at such other place as may be designated by the Agent, in immediately available funds.

(b) Whenever any payment (including principal of or interest on any Loan or any Fees or other amounts) hereunder shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Fees, if applicable.

2.14 Conversion and Continuation Options. The Borrower shall have the right at any time upon prior irrevocable notice to the Agent (i) not later than 11:00 a.m., Philadelphia time, on the Business Day of conversion, to convert any Eurodollar Loan to a Base Rate Loan, (ii) not later than 11:00 a.m., Philadelphia time, three Business Days prior to conversion or continuation, (y) to convert any Base Rate Loan into a Eurodollar Loan, or (z) to continue any Eurodollar Loan as a Eurodollar Loan for any additional Interest Period, and (iii) not later than 11:00 a.m., Philadelphia time, three Business Days prior to conversion, to convert the Interest Period with respect to any Eurodollar Loan to another permissible Interest Period, subject in each case to the following:

(a) a Eurodollar Loan may not be converted at a time other than the last day of the Interest Period applicable thereto;

(b) any portion of a Loan maturing or required to be repaid in less than one month may not be converted into or continued as a Eurodollar Loan;

(c) no Eurodollar Loan may be continued as such and no Base Rate Loan may be converted to a Eurodollar Loan when any Default or Event of Default has occurred and is continuing;

(d) any portion of a Eurodollar Loan that cannot be converted into or continued as a Eurodollar Loan by reason of paragraph 2.14(b) or 2.14(c) automatically shall be converted at the end of the Interest Period in effect for such Loan to a Base Rate Loan;

(e) if by the third Business Day prior to the last day of any Interest Period for Eurodollar Loans, the Borrower has failed to give notice of conversion or continuation as described in this subsection, the Agent shall give notice thereof to the Banks and such portion of the Loans shall be automatically converted to Base Rate Loans on the last day of such then expiring Interest Period; and

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(f) each request by the Borrower to convert or continue any portion of a Loan shall constitute a representation and warranty that each of the representations and warranties made by the Borrower herein is true and correct in all material respects on and as of such date as if made on and as of such date.

Accrued interest on a Loan (or portion thereof) being converted shall be paid by the Borrower at the time of conversion.

SECTION 3. REPRESENTATIONS AND WARRANTIES

To induce the Banks to enter into this Agreement, and to make the Loans, the Borrower hereby represents and warrants to the Agent and each Bank that:

3.1 Financial Condition. (a) The audited consolidated balance sheet of the Borrower and its Subsidiaries as at December 31, 2002 and the related consolidated statements of income and of cash flows for the fiscal year ended on such date, and the consolidated balance sheet as at March 31, 2003 and the statements of income and cash flow of the Borrower and its Subsidiaries for the three month period ended March 31, 2003, copies of all of which have heretofore been furnished to each Bank, present fairly the consolidated financial condition of the Borrower as at such dates, and the consolidated results of its operations and its consolidated cash flows for the periods covered thereby. All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved. Neither the Borrower nor any of its Subsidiaries had, at the date of the most recent balance sheet referred to above, any material Contingent Obligation, liability for taxes, or any long-term lease or unusual forward or long-term commitment, including, without limitation, any interest rate or foreign currency swap or exchange transaction, which is required by GAAP to be but is not reflected in the foregoing statements or in the notes thereto.

(b) (i) As of the Closing Date and after giving effect to this Agreement and the Loans to be made on the Closing Date, the Borrower is Solvent.

(ii) The Borrower does not intend to incur debts beyond its ability to pay such debts as they mature, taking into account the timing of and amounts of cash to be received by it and the timing of the amounts of cash to be payable on or in respect of its Debt.

3.2 No Adverse Change. Since December 31, 2002, there has been no development or event which has had a Material Adverse Effect.

3.3 Existence; Compliance with Law. The Borrower (a) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has the corporate power and authority, and the legal right, to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, (c) is duly qualified as a foreign entity and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification, except to the extent that the failure to be so qualified would not, in the aggregate, have a Material Adverse Effect and (d) is in compliance with all Requirements of Law the non-compliance with which would have a Material Adverse Effect.

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3.4 Corporate Power; Authorization; Enforceable Obligations. The Borrower has the corporate power, authority, and legal right, to make, deliver and perform this Agreement, the Notes, the other Loan Documents to which it is a party and the Purchase Agreement and to borrow hereunder and has taken all necessary corporate action to authorize the borrowings on the terms and conditions of this Agreement and the Notes and to authorize the execution, delivery and performance of this Agreement, the Notes, the other Loan Documents to which it is a party and the Purchase Agreement. No consent or authorization of, filing with or other act by or in respect of, any Governmental Authority or any other Person (including stockholders and creditors of the Borrower) is required in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement, the Notes, the other Loan Documents or the Purchase Agreement. This Agreement and the Purchase Agreement have been, and each Note and other Loan Document will be, duly executed and delivered on behalf of the Borrower. Each of this Agreement and the Purchase Agreement constitutes, and each Note and other Loan Document when executed and delivered will constitute, a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

3.5 No Legal Bar. The execution, delivery and performance of this Agreement, the Notes and the other Loan Documents and the Purchase Agreement by the Borrower, the borrowings hereunder and the use of the proceeds thereof and the purchase by the Borrower of its Capital Stock pursuant to the Purchase Agreement will not violate any Requirement of Law or Contractual Obligation of the Borrower or of any of the Subsidiaries and will not result in, or require, the creation or imposition of any Lien on any of its or their respective properties or revenues pursuant to any such Requirement of Law or Contractual Obligation.

3.6 No Material Litigation. Except as set forth on Schedule 3.6, no litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrower, threatened against the Borrower or against any of the properties or revenues of the Borrower or against any Plan (a) with respect to this Agreement, the Notes or the other Loan Documents or any of the transactions contemplated hereby, or (b) as to which there is a reasonable likelihood of an adverse determination and which, if adversely determined, would have a Material Adverse Effect.

3.7 No Default. The Borrower is not in default under or with respect to any of its Contractual Obligations, including without limitation, those under the Purchase Agreement, in any respect which would have a Material Adverse Effect. No Event of Default has occurred and is continuing.

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3.8 Taxes. The Borrower has filed or caused to be filed all tax returns which are required to be filed (or has obtained authorized extensions for such filings) and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by any Governmental Authority (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower, as the case may be); no material tax Lien has been filed against the Borrower, and, to the knowledge of the Borrower, no claim is being asserted, with respect to any such tax, fee or other charges.

3.9 Federal Regulations. No part of the proceeds of any Loans will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U or for any purpose which violates the provisions of Regulation U. If requested by any Bank or the Agent, the Borrower will furnish to the Agent and each Bank a statement to the foregoing effect in conformity with the requirements of FR Form U-1 referred to in said Regulation U. No part of the proceeds of the Loans hereunder will be used for any purpose which violates, or which is inconsistent with, the provisions of Regulation X.

3.10 ERISA. (a) The Borrower and each Commonly Controlled Entity have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Borrower nor any Commonly Controlled Entity has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in Section 3 of ERISA), and no event, transaction or condition has occurred or exists that would reasonably be expected to result in the incurrence of any such liability by the Borrower or any Commonly Controlled Entity, or in the imposition of any Lien on any of the rights, properties or assets of the Borrower or any Commonly Controlled Entity, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to Section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not individually or in the aggregate have a Material Adverse Effect.

(b) The present value of the accrued benefit liabilities under each of the Plans (other than Multiemployer Plans), determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities. The term "benefit liabilities" has the meaning specified in section 4001 of ERISA and the terms "current value" and "present value" have the meaning specified in Section 3 of ERISA.

(c) The Borrower and its Commonly Controlled Entities have not incurred any withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under Section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate would have a Material Adverse Effect. To the best of the Borrower's knowledge, such Multiemployer Plans are neither in Reorganization as defined in Section 4241 of ERISA nor Insolvent.

(d) The expected post-retirement benefit obligation (determined as of the last day of the Borrower's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Borrower and its Subsidiaries, together with the liabilities referred to in subsection (a) and (c) hereof would not have a Material Adverse Effect.

3.11 Investment Company Act; Public Utility Holding Company Act. Except as set forth on Schedule 3.11, the Borrower is not (a) an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended; (b) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of either a "holding company" or a "subsidiary company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, or (c) subject to any other federal or state law or regulation which purports to restrict or regulate its

ability to borrow money.

3.12 Purpose of Loans. The proceeds of the Loans shall be used by the Borrower solely to finance the cost of the AquaSource Acquisition pursuant to and in accordance with the terms of the Purchase Agreement, a true and correct copy of which has been delivered to the Agent.

3.13 Environmental Matters(a) . Neither the Borrower nor any Subsidiary has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted raising any claim against the Borrower or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them, or other assets, alleging damage to the environment or any violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed on Schedule 3.13:

(a) neither the Borrower nor any Subsidiary has knowledge of any facts which would give rise to any claim, public or private, for violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties or to other assets now or formerly owned, leased or operated by any of them or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(b) neither the Borrower nor any Subsidiary has stored any Materials of Environmental Concern on real properties now or formerly owned, leased or operated by any of them or has disposed of any Materials of Environmental Concern in each case in a manner contrary to any Environmental Laws and in any manner that could reasonably be expected to result in a Material Adverse Effect; and

(c) all buildings on all real properties now owned, leased or operated by the Borrower or any Subsidiary are in compliance with applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

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3.14 Patents, Trademarks, etc. The Borrower has obtained and holds in full force and effects all patents, trademarks, servicemarks, trade names, copyrights or licenses therefor and other such rights, free from burdensome restrictions, which are necessary for the operation of its business as presently conducted. To the Borrower's best knowledge, no material product, process, method, substance, part or other material presently sold by or employed by the Borrower in connection with such business infringes any patent, trademark, service mark, trade name, copyright, license or other right owned by any other Person so as to have a Material Adverse Effect. There is not pending or, to the Borrower's knowledge, threatened any claim or litigation against or affecting the Borrower contesting its right to sell or use any such product, process, method, substance, part or other material.

3.15 Ownership of Property. The Borrower has good and marketable fee simple title to or valid leasehold interests in all real property owned or leased by the Borrower (except in the case of certain properties not material to its business as to which its title was obtained by quit-claim or special warranty deed), and good title to all of its personal property subject to no Lien of any kind except Liens permitted hereby. The Borrower enjoys peaceful and undisturbed possession under all of its respective material leases.

3.16 Licenses, etc. The Borrower has obtained and holds in full force and effect, all franchises, licenses, permits, certificates, authorizations, qualifications, easements, rights of way and other rights, consents and approvals which are necessary for the operation of its business as presently conducted.

3.17 No Burdensome Restrictions. The Borrower is not a party to any agreement or instrument or subject to any other Contractual Obligation or any charter or corporate restriction or any provision of any applicable law, rule or regulation which, to the best of the Borrower's knowledge, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

3.18 Labor Matters. The Borrower has not suffered any strikes, walkouts, work stoppages or other material labor difficulty within the last five years and to the best of the Borrower's knowledge, there are none now

threatened.

3.19 Partnerships. Except as disclosed on Schedule 3.19, as of the Closing Date, the Borrower is not a partner in any partnership or in any joint venture.

3.20 No Material Misstatements. To the best of the Borrower's knowledge, no information, report, financial statement, exhibit or schedule furnished by or on behalf of the Borrower to the Agent or any Bank in connection with the negotiation of this Agreement or any Note or other Loan Document or included therein contains any misstatement of fact, or omitted or omits to state any fact necessary to make the statements therein not misleading, where such misstatement or omission would in the Borrower's judgment be material to the interests of the Banks with respect to the Borrower's performance of its obligations hereunder.

All of the foregoing representations and warranties shall survive the execution and delivery of the Notes and the making by the Banks of the Loans hereunder.

3.21 Anti-Terrorism Laws.

(a) Neither the Borrower nor any Affiliate of the Borrower is in violation of any Anti-Terrorism Law or engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

(b) Neither the Borrower nor any Affiliate of the Borrower, or their respective agents acting or benefiting in any capacity in connection with any Loan or other transactions hereunder, is any of the following (each a "Blocked Person"):

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(i) a Person that is listed in the annex to, or is otherwise subject to the provisions of, Executive Order No. 13224;

(ii) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, Executive Order No. 13224;

(iii) a Person or entity with which any Bank is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law;

(iv) a Person or entity that commits, threatens or conspires to commit or supports "terrorism" as defined in Executive Order No. 13224;

(v) a Person or entity that is named as a "specially designated national" on the most current list published by the U.S. Treasury Department Office of Foreign Asset Control at its official website or any replacement website or other replacement official publication of such list, or

(vi) a person or entity who is affiliated or affiliated with a Person or entity described above.

Neither the Borrower nor to the knowledge of the Borrower, any of its agents acting in any capacity in connection with any Loan or other transactions hereunder (i) conducts any business or engages in making or receiving any contribution of funds, good or services to or for the benefit of any Blocked Person, or (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to Executive Order No. 134224.

All of the foregoing representations and warranties shall survive the execution and delivery of the Notes and the making by the Banks of the Loans hereunder.

SECTION 4. CONDITIONS PRECEDENT; CLOSING

4.1 Conditions to Closing. The agreement of each Bank to enter into this Agreement and make its Loan hereunder is subject to the satisfaction, immediately prior to or concurrently with such Loan, of the following conditions

precedent:

(a) Loan Documents. The Agent shall have received (i) this Agreement, executed and delivered by a duly authorized officer of the Borrower, with a counterpart for each Bank, and (ii) for the account of each Bank, a Note conforming to the requirements hereof and executed by a duly authorized officer of the Borrower.

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(b) Corporate Proceedings of the Borrower. The Agent shall have received a copy of the resolutions or other corporate proceedings or action, in form and substance satisfactory to the Agent, taken on behalf of the Borrower authorizing (i) the execution, delivery and performance of this Agreement, the Notes, the other Loan Documents to which it is a party and the Purchase Agreement, and (ii) the borrowings contemplated hereunder, certified by a Responsible Officer of the Borrower as of the Closing Date, which certificate shall state that such resolutions, or other proceedings or action thereby certified have not been amended, modified, revoked or rescinded and shall be in form and substance satisfactory to the Agent.

(c) Representations and Warranties True; No Default. The representations and warranties of the Borrower contained in Section 3 hereof shall be true and accurate on and as of the Closing Date in all material respects with the same effect as though such representations and warranties had been made on and as of such date (except representations and warranties which relate solely to an earlier date or time, which representations and warranties shall be true and correct on and as of the specific dates or times referred to therein), and the Borrower shall have performed and complied with all covenants and conditions hereof; and no Event of Default or Default under this Agreement shall have occurred and be continuing or shall exist.

(d) Corporate Documents. The Agent shall have received, with a counterpart for each Bank, true and complete copies of (i) the articles of incorporation and bylaws of the Borrower, certified as of the Closing Date as complete and correct copies thereof by a Responsible Officer of the Borrower; and (ii) good standing certificates issued by the Secretaries of State (or the equivalent thereof) of each state in which the Borrower has been formed or is required to be qualified to transact business no earlier than thirty days prior to the Closing Date.

(e) Incumbency. The Agent shall have received a written certificate dated the Closing Date by a Responsible Officer of the Borrower as to the names and signatures of the officers of the Borrower authorized to sign this Agreement and the other Loan Documents. The Agent may conclusively rely on such certificate until it shall receive a further certificate by a Responsible Officer of the Borrower amending such prior certificate.

(f) Fees. The Borrower shall have paid or caused to be paid to the Agent (i) all Fees then due hereunder and (ii) all other fees and expenses due and payable hereunder on or before the Closing Date (if then invoiced), including without limitation the reasonable fees and expenses of counsel to the Agent which counsel fees shall not exceed \$15,000.

(g) Legal Opinion. The Agent shall have received, with a counterpart for each Bank, the executed legal opinion of the Executive Vice President, General Counsel and Secretary of the Borrower, addressed to the Banks and satisfactory in form and substance to the Agent and its counsel covering such matters incident to the transactions contemplated by this Agreement and the Purchase Agreement as the Agent may reasonably require. The Borrower hereby directs such counsel to deliver such opinion, upon which the Banks and the Agent may rely.

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(h) No Material Adverse Change. There shall be no material adverse change in the business, operations, Property, prospects or financial or other condition of the Borrower nor any material change in the management of the Borrower or an event which would cause or constitute a Material Adverse Effect; and there shall be delivered to the Agent for the benefit of each Bank a certificate dated the Closing Date and signed on behalf of the Borrower by a Responsible Officer to each such effect.

(i) No Litigation. No action, proceeding, investigation, regulation or legislation shall have been instituted, threatened or proposed before any court, governmental agency or legislative body to enjoin, restrain or prohibit, or to obtain damages in respect of this Agreement or the consummation of the transactions contemplated hereby or which, in the Agent's sole discretion, would make it inadvisable to consummate the transactions contemplated by this Agreement or by the Purchase Agreement.

(j) Evidence of Insurance. The Borrower shall have provided to each of the Banks copies of the evidence of insurance required by subsection 5.5(b).

(k) Evidence of Regulatory Approval. The Borrower shall have provided to the Agent a copy of each and every authorization, permit, consent, and approval of and other actions by, and notice to and filing with, every Governmental Authority which is required to be obtained or made by the Borrower for the due execution, delivery and performance of this Agreement and the other Loan Documents, if any.

(l) Purchase Agreement. All conditions to the AquaSource Acquisition pursuant to the Purchase Agreement, including any and all required approvals of any Governmental Authority, shall have been satisfied and the Agent shall have received evidence satisfactory to it that the AquaSource Acquisition has been consummated simultaneously with the making of the Loans.

(m) Debt to Capitalization Ratio. After giving effect to the AquaSource Acquisition pursuant to the Purchase Agreement on a pro forma basis, the Debt to Capitalization Ratio shall not exceed 67.5% and the Agent shall have received evidence satisfactory to it supporting the calculation of such Ratio.

(n) Additional Documents. The Agent shall have received such additional documents, certificates and information as the Agent may require pursuant to the provisions hereof or as the Agent may otherwise reasonably request.

4.2 Closing. The closing (the "Closing") of the transactions contemplated hereby shall take place at the offices of Ballard Spahr Andrews & Ingersoll, LLP, commencing at 10:00 a.m., Philadelphia time, on July 31, 2003 or such other place or date as to which the Agent, the Banks and the Borrower shall agree. The date on which the Closing shall be completed is referred to herein as the "Closing Date".

SECTION 5. AFFIRMATIVE COVENANTS

The Borrower hereby agrees that, so long as any Note remains outstanding and unpaid or any other amount is owing to any Bank or the Agent hereunder, the Borrower shall:

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5.1 Financial Statements. Furnish to each Bank (i) within 60 days after the end of each of the first three fiscal quarters of each fiscal year a consolidated balance sheet of the Borrower and its Subsidiaries as of the end of each such fiscal quarter and statements of income for the period from the beginning of such fiscal year to the end of such fiscal quarter, and (ii) within 120 days after the end of each fiscal year a consolidated balance sheet, of the Borrower and its Subsidiaries as of the end of each fiscal year and statements of income, statements of retained earnings and cash flow for such fiscal year. All financial statements will be prepared in accordance with GAAP applied on a basis consistently maintained throughout the period involved and with the prior periods, such annual financial statements to be certified by independent certified public accountants selected by the Borrower and reasonably acceptable to the Agent, without any exception or qualification arising out of the restricted or limited nature of the examination made by such accountants.

5.2 Certificates; Other Information. Furnish to each Bank:

(a) concurrently with the delivery of the financial statements referred to in subsection 5.1, a certificate on behalf of the Borrower executed by a Responsible Officer, (i) showing in detail the calculations supporting such statements in respect of Section 6.1; and (ii) stating that, to the best of his or her knowledge, the Borrower during such period has kept, observed, performed and fulfilled each and every covenant and condition contained in this Agreement and in the Notes and the other Loan Documents applicable to it and that he or

she obtained no knowledge of any Default or Event of Default except as specifically indicated; and

(b) promptly, such forecasts and additional financial and other information as any Bank or the Agent may from time to time reasonably request.

5.3 Payment of Obligations. Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all its obligations of whatever nature, except (x) in the case of indebtedness other than that described in subsection 7.1(f), when the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the Borrower or (y) where the failure so to pay such indebtedness is in the normal course of the Borrower's business as now conducted and would not have a Material Adverse Effect.

5.4 Conduct of Business and Maintenance of Existence. Subject to Section 6.4 hereof, continue to engage in business of the same general type as now conducted by it and preserve, renew and keep in full force and effect its corporate existence and, except to the extent that failure to do so would not have a Material Adverse Effect, take all reasonable action to maintain all rights, privileges, trademarks, trade names, licenses, franchises and other authorizations necessary or desirable in the normal conduct of its business; comply with all Contractual Obligations and Requirements of Law except to the extent that failure to comply therewith would not reasonably be expected to have, in the aggregate, a Material Adverse Effect.

5.5 Maintenance of Property; Insurance. (a) Maintain in good repair, working order and condition (ordinary wear and tear excepted) in accordance with the general practice of other businesses of similar character and size, all of those properties material or necessary to its business, and from time to time make or cause to be made all appropriate repairs, renewals or replacements thereof.

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(b) Insure its properties and assets against loss or damage by fire and such other insurable hazards as such assets are commonly insured (including fire, extended coverage, property damage, worker's compensation, public liability and business interruption insurance) and against other risks (including errors and omissions) in such amounts as similar properties and assets are insured by prudent companies in similar circumstances carrying on similar businesses, and with reputable and financially sound insurers, including self-insurance to the extent customary. The Borrower shall deliver at the request of the Agent from time to time a summary schedule indicating all insurance then in force with respect to the Borrower.

5.6 Inspection of Property; Books and Records; Discussions. (a) Permit any of the officers or authorized employees or representatives of the Agent or any of the Banks to visit and inspect during normal business hours any of its properties and to examine and make excerpts from its books and records and discuss its business affairs, finances and accounts (including those of its Affiliates) with its officers, all in such detail and at such times and as often as any of the Banks may reasonably request, provided that each Bank shall provide the Borrower and the Agent with reasonable notice prior to any visit or inspection. In the event Required Banks desire to conduct an audit of the Borrower (to which the Borrower hereby consents), such Banks shall make a reasonable effort to conduct such audit contemporaneously with any audit to be performed by the Agent.

(b) Maintain and keep proper books of record and account which enable the Borrower to issue financial statements in accordance with GAAP and as otherwise required by applicable Requirements of Law, and in which full, true and correct entries shall be made in all material respects of all its dealings and business and financial affairs.

5.7 Notices. Promptly, upon the Borrower becoming aware, give notice to the Agent and each Bank of:

(a) the occurrence of any Default or Event of Default;

(b) any (i) default or event of default under any Contractual Obligation of the Borrower, including, without limitation, the Purchase Agreement, or (ii) litigation, investigation or proceeding which may exist at

any time between the Borrower and any Governmental Authority, which in either case, if not cured or if adversely determined, as the case may be, would have a Material Adverse Effect;

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(c) any litigation or proceeding which, if adversely determined, would have a Material Adverse Effect;

(d) the following events, as soon as possible and in any event within 30 days after the Borrower knows or has reason to know thereof: (i) the occurrence of any Reportable Event with respect to any Single Employer Plan, or any withdrawal from, or the termination, Reorganization or Insolvency of any Multiemployer Plan which may, individually or in the aggregate, result in a liability which would have a Material Adverse Effect or (ii) the institution of proceedings or the taking of any other action by the PBGC or the Borrower or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the terminating, Reorganization or Insolvency of, any Single Employer Plan in a distress termination under Section 4041(c) of ERISA or Multiemployer Plan;

(e) any Change of Control; and

(f) an event which has had a Material Adverse Effect.

Each notice pursuant to this Section shall be accompanied by a statement of the Borrower, executed on its behalf by a Responsible Officer, setting forth details of the occurrence referred to therein and stating what action the Borrower propose to take with respect thereto.

5.8 Environmental Laws. (a) Comply with, and require compliance by all tenants and to the extent possible, all subtenants, if any, with, all Environmental Laws and obtain and comply with and maintain, and require that all tenants and to the extent possible, all subtenants obtain and comply with and maintain, any and all licenses, approvals, registrations or permits required by Environmental Laws except to the extent that failure to so comply or obtain or maintain such documents would not have a Material Adverse Effect.

(b) Except as set forth in Schedule 3.13, comply with all lawful and binding orders and directives of all Governmental Authorities respecting Environmental Laws except to the extent that failure to so comply would not have a Material Adverse Effect.

(c) Defend, indemnify and hold harmless the Agent and the Banks, and their respective employees, agents, officers and directors, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature known or unknown, contingent or otherwise, arising out of, or in any way relating to the violation of or noncompliance with any Environmental Laws applicable to the real property owned or operated by the Borrower, or any orders, requirements or demands of Governmental Authorities related thereto, including, without limitation, attorneys' and consultants' fees, investigation and laboratory fees, court costs and litigation expenses, except to the extent that any of the foregoing arise out of the negligence or willful misconduct of any of the foregoing enumerated parties.

5.9 Taxes. Pay when due all taxes, assessments and governmental charges imposed upon it or any of its properties or that it is required to withhold and pay over, except where contested in good faith and where adequate reserves have been set aside to the extent required under GAAP.

5.10 Ownership of Certain Subsidiaries. Notwithstanding the provisions of Section 6.5 but subject to the provisions of Section 6.4(a), the Borrower shall at all times maintain 100% direct or indirect ownership of the AquaSource Entities (except any thereof operating solely in Connecticut and/or New York), Consumers Water Company and Pennsylvania Suburban Water Company.

5.11 Anti-Terrorism Laws. The Borrower and its Affiliates and agents shall not (i) conduct any business or engage in any transaction or dealing with any Blocked Person, including the making of or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person, (ii) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to Executive Order No. 13224, or (iii)

engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in Executive Order No. 13224 or the USA Patriot Act. The Borrower shall deliver to the Banks any certification or other evidence requested from time to time by any Bank in its sole discretion, confirming the Borrower's compliance with this Section 5.10.

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SECTION 6. NEGATIVE COVENANTS

The Borrower hereby agrees that, so long as any Note remains outstanding and unpaid or any other amount is owing to any Bank or the Agent hereunder, the Borrower shall not directly or indirectly:

6.1 Financial Covenants.

(a) Debt to Capitalization Ratio. Permit as of the end of any fiscal quarter the Debt to Capitalization Ratio to be greater than (i) sixty seven and one half percent (67.5%) through December 30, 2003 or (ii) sixty-five percent (65%) at December 31, 2003 and thereafter.

(b) Interest Coverage Ratio. Permit as of the end of any fiscal quarter the Interest Coverage Ratio to be less than 2.5 to 1.

6.2 Limitation on Debt. At any time incur, create, assume, or suffer to exist any Debt except:

(i) amounts outstanding hereunder as Loans;

(ii) Debt existing as of the date hereof described on Schedule 6.2 (including any extensions or renewals or refinancings thereof provided there is no increase in the amount thereof or other significant change in the terms thereof);

(iii) Subordinated Debt;

(iv) Debt to commercial banks under lines of credit in an aggregate outstanding amount of up to \$150,000,000;

(v) intercompany indebtedness to the extent permitted by Section 6.8; and

(vi) other indebtedness incurred in the ordinary course of business for the purchase of capital assets.

6.3 Limitation on Liens. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, including, without limitation, the stock of its Subsidiaries, whether now owned or hereafter acquired, except for:

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(a) The following (i) if the validity or amount thereof is being contested in good faith by appropriate and lawful proceedings diligently conducted so long as levy and execution thereon have been stayed and continue to be stayed or (ii) if a final judgment is entered and such judgment is discharged within thirty (30) days of entry, and in either case they do not materially impair the ability of the Borrower to perform its obligations hereunder or under the other Loan Documents:

(A) Claims or Liens for taxes, assessments or charges due and payable and subject to interest or penalty, provided that the Borrower maintains such reserves or other appropriate provisions as shall be required by GAAP and pays all such taxes, assessments or charges forthwith upon the commencement of proceedings to foreclose any such Lien;

(B) Claims, Liens or encumbrances upon, and defects of title to, real or personal property including any attachment of personal or real property or other legal process prior to adjudication of a dispute on the merits; and

(C) Claims or Liens of mechanics, materialmen, warehousemen, carriers, or other statutory nonconsensual Liens;

(b) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation;

(c) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business of the Borrower;

(d) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not interfere with the ordinary conduct of the business of the Borrower;

(e) Liens which were in existence on the date hereof and shown on Schedule 6.3 and replacements, extensions or replacements thereof;

(f) Liens on assets acquired by the Borrower in acquisitions permitted by Section 6.6 (which liens were in existence at the time of such acquisitions);

(g) Liens upon real property, which property was acquired after the Closing Date by the Borrower, each of which Liens existed on such property before the time of its acquisition or was created to finance, refinance or refund the cost (including the cost of construction) of the respective property; provided, however, that no such Lien shall extend to or cover any accounts receivable or inventory under any circumstances or any property of the Borrower other than the respective property so acquired and improvements thereon, and the principal amount of indebtedness secured by any such Lien shall not exceed the fair market value of the respective property at the time it was acquired;

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(h) Capital Leases as and to the extent permitted under this Agreement; and

(i) Purchase Money Security Interests in capital equipment purchased in the ordinary course of business.

6.4 Limitations on Fundamental Changes. Enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease, assign, transfer or otherwise dispose of, all or substantially all of its property, business or assets except that:

(a) any Subsidiary of the Borrower may be merged or consolidated with or into the Borrower (provided that the Borrower shall be the continuing or surviving corporation); and

(b) any corporation or limited liability company may be merged or consolidated with or into the Borrower in connection with a Permitted Acquisition in accordance with Section 6.6 in which the continuing or surviving entity is the Borrower;

provided that, immediately after each such transaction and after giving effect thereto, the Borrower is in compliance with this Agreement and no Default or Event of Default shall be in existence or result from such transaction.

6.5 Limitation on Sale of Assets. Convey, sell, lease, assign, transfer or otherwise dispose of any of its property, business or assets (including, without limitation, accounts receivable and leasehold interests and Capital Stock or other equity interests in any Subsidiary), whether now owned or hereafter acquired, except:

(i) the sale, transfer or other disposition of obsolete or worn out property in the ordinary course of business;

(ii) the sale or lease of inventory or other assets, or the licensing of intellectual property, in each case in the ordinary course of business;

(iii) any sale, transfer or lease of assets (i) which are replaced by like-kind assets or (ii) the proceeds of the sale of which are used within three (3) years of such sale to purchase like-kind assets;

(iv) any sale, transfer or lease of assets the proceeds of the sale of which are used to prepay the Loans; and

(v) in addition to the above subsections 6.5(a)(i) through 6.5(a)(iv), inclusive, any such conveyances, sales, leases, assignments, transfers or other disposals, the aggregate fair market value of which property, business or assets for any fiscal year does not exceed 5% of the Borrower's Consolidated Shareholders' Equity as at the end of the immediately preceding fiscal year.

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6.6 Limitation on Acquisitions, Investments, Loans and Advances. Purchase, hold or acquire beneficially any stock, other securities or evidences of indebtedness of, or all or a substantial amount of the assets of, make or permit to exist any loans or advances to, or make or permit to exist any investment or acquire any interest whatsoever in, any other Person, except:

(a) extensions of trade credit to customers in the ordinary course of business;

(b) Permitted Investments;

(c) loans and advances to or other investments in any Wholly-Owned Subsidiary;

(d) loans and advances to employees of the Borrower for travel and entertainment expenses in the ordinary course of business; and

(e) Permitted Acquisitions.

6.7 No Negative Pledge or Other Restrictions. (a) Enter into any agreement after the date hereof with any Person other than the Agent on behalf of the Banks pursuant to which the Borrower covenants or agrees to a prohibition upon creating, incurring, or suffering any Lien upon any of its properties, assets or revenues, whether now owned or hereafter acquired, except in connection with a Capital Lease or Purchase Money Security Interest, in which case such agreement shall be permitted but only with respect to the specific asset or assets subject to such Capital Lease or Purchase Money Security Interest or

(b) Permit any Subsidiary to enter into any agreement after the date hereof with any Person pursuant to which such Subsidiary agrees to any limitation or restriction on its ability to declare and pay dividends or otherwise make Distributions directly or indirectly to the Borrower in respect of the Capital Stock of such Subsidiary owned directly or indirectly by the Borrower.

6.8 Transactions with Affiliates. Except as expressly permitted in this Agreement, directly or indirectly enter into any transaction or arrangement whatsoever or make any payment to or otherwise deal with any Affiliate, except (i) as to all of the foregoing, in the ordinary course of and pursuant to the reasonable requirements of the Borrower's business and upon fair and reasonable terms no less favorable to the Borrower than would be obtained in a comparable arm's length transaction with a Person not an Affiliate of the Borrower, and (ii) intercompany loans among the Borrower and its Subsidiaries in the ordinary course of and pursuant to the reasonable requirements of the Borrower's or any such Subsidiary's business.

6.9 Sale and Leaseback. Except if reasonably contemporaneous with the Borrower's purchase, enter into any arrangement with any Person providing for the leasing by the Borrower of real or personal property which has been or is to be sold or transferred by such Borrower to such Person or to any other Person to whom funds have been or are to be advanced by such Person on the security of such property or rental obligations of such Borrower.

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6.10 Fiscal Year. Permit its Fiscal Year to end on a day other than

December 31.

6.11 Continuation of or Change in Business. Discontinue any substantial part, or change the nature of, the existing business activities of the Borrower, or engage in any business either directly or through any Subsidiary except for businesses in which the Borrower is engaged on the date of this Agreement and any business activities directly related, similar or incidental or ancillary to such existing businesses.

SECTION 7. EVENTS OF DEFAULT

7.1 Events of Default. If any of the following events shall occur and be continuing:

(a) The Borrower shall fail to pay when due any principal of any Note, or shall fail to pay within five (5) days after the date when due any interest, Fees or other amount payable hereunder; or

(b) Any representation or warranty made or deemed made by the Borrower herein or in any other Loan Document or which is contained in any certificate, document or financial or other statement furnished at any time under or in connection with this Agreement shall prove to have been incorrect in any material respect on or as of the date made or deemed made; or

(c) The Borrower shall default in the observance or performance of any agreement contained in Section 6; or

(d) The Borrower shall default in the observance or performance of any other agreement contained in this Agreement (other than as provided in paragraphs (a), (b) or (c) of this Section 7.1) or any other Loan Document, and such default shall continue unremedied for a period of thirty (30) days after notice of such default is given by the Agent; or

(e) One or more judgments or decrees shall be entered against the Borrower involving in the aggregate a liability (not paid or fully covered by insurance) of \$10,000,000 or more and all such judgments or decrees shall not have been vacated, discharged, settled, satisfied or paid, or stayed or bonded pending appeal, within thirty (30) days from the entry thereof; or

(f) The Borrower or any of its Subsidiaries shall (i) default in the payment of any amount due under any Debt of the Borrower or any such Subsidiary in excess of \$10,000,000 in the aggregate (other than the Notes), beyond the period of grace, if any, provided in the instrument or agreement under which such Debt was created; or (ii) default in the observance or performance of any other agreement contained in any such Debt or in any instrument or agreement evidencing, securing or relating thereto beyond any applicable notice and grace period, or any other event shall occur the effect of which default or other event is to cause, or to permit the holder or holders or beneficiary or beneficiaries of such Debt (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause such Debt to become due and payable prior to its stated maturity or any such Debt is declared to be due and payable prior to its stated maturity unless such default, event or declaration referred to in this subparagraph (ii) is waived or cured to the satisfaction of such other party as demonstrated to the satisfaction of the Agent by the Borrower prior to the Agent taking any action under Section 7.2 in respect of such occurrence; or

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(g) (i) The Borrower shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Borrower shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Borrower any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismitted, undischarged or unbonded for a period of sixty (60) days; or (iii) there shall be commenced against the

Borrower any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process on a claim in excess of \$10,000,000 against all or any substantial part of its assets which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) the Borrower shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above; or (v) the Borrower shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(h) (i) Any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or institution of proceedings is, in the reasonable opinion of the Required Banks, likely to result in the termination by action of the PBGC or any court of such Plan for purposes of Title IV of ERISA, or (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA; and in each case in clauses (i) through (iv) above, such event or condition, together with all other such events or conditions, if any would have a Material Adverse Effect; or

(i) Any of the Loan Documents shall cease to be legal, valid and binding agreements enforceable against the party executing the same or such party's successors and assigns (as permitted under the Loan Documents) in accordance with the respective terms thereof or shall in any way be terminated (except in accordance with its terms) or become or be declared ineffective or inoperative or shall in any way be challenged and thereby deprive or deny the Banks and the Agent the intended benefits thereof or they shall thereby cease substantially to have the rights, titles, interests, remedies, powers or privileges intended to be created thereby; or

(j) A notice of lien or assessment in excess of \$1,000,000 is filed of record with respect to all or any part of the Borrower's assets having a value of at least that amount by the United States, or any department, agency or instrumentality thereof, or by any state, county, municipal, or other governmental agency, including, without limitation, the PBGC, becomes payable and the same is not paid, vacated, bonded or stayed pending appeal within thirty (30) days after the same becomes payable; or

(k) The Borrower ceases to be Solvent; or

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(l) Except as otherwise permitted in this Agreement, the Borrower ceases to conduct its business as contemplated or the Borrower is enjoined, restrained or in any way prevented by court order from conducting all or any material part of its business so as to cause or result in a Material Adverse Effect, and such injunction, restraint or other preventive order is not dismissed within thirty (30) days after the entry thereof.

7.2 Remedies. (a) If an Event of Default specified under subsections 7.1 (a) through (f) or (h) through (m) shall occur and be continuing, the Banks shall be under no further obligation to make Loans hereunder, and the Agent upon the request of the Required Banks shall, by written notice to the Borrower, declare the unpaid principal amount of the Notes then outstanding and all interest accrued thereon, any unpaid fees and all other obligations of the Borrower to the Banks hereunder and thereunder to be forthwith due and payable, and the same shall thereupon become and be immediately due and payable to the Agent for the benefit of each Bank without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived.

(b) If an Event of Default specified under subsections 7.1(g) hereof shall occur, the unpaid principal amount of the Notes then outstanding and all interest accrued thereon, any unpaid fees and all other obligations of the Borrower to the Banks hereunder and thereunder shall be immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived.

(c) If an Event of Default shall occur and be continuing, any Bank to whom any obligation is owed by the Borrower hereunder or under any other

Loan Document or any participant of such Bank which has agreed in writing to be bound by the provisions of Section 9.6 hereof and any branch, subsidiary or Affiliate of such Bank or Participant shall have the right, in addition to all other rights and remedies available to it, without notice to the Borrower, to set-off against and apply to the then unpaid balance of all the Loans and all other obligations of the Borrower hereunder or under any other Loan Document any debt owing to, and any other funds held in any manner for the account of, the Borrower by such Bank or participant or by such branch, Subsidiary or Affiliate, including, without limitation, all funds in all deposit accounts (whether time or demand, general or special, provisionally credited or finally credited, or otherwise) now or hereafter maintained by the Borrower for its own account (but not including funds held in custodian or trust accounts or other accounts established solely for the benefit of parties other than the Borrower) with such Bank or Participant or such branch, Subsidiary or Affiliate. Such right shall exist whether or not any Bank or the Agent shall have made any demand under this Agreement or any other Loan Document, whether or not such debt owing to or funds held for the account of the Borrower is or are matured or unmatured and regardless of the existence or adequacy of any collateral, guaranty or any other security, right or remedy available to any Bank or the Agent.

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(d) Notwithstanding any provision herein to the contrary or in the other Loan Documents, any proceeds received by the Agent from any payment made by the Borrower under this Agreement or the other Loan Documents after the occurrence of an Event of Default, or received by the Agent from the foreclosure, sale, lease, collection upon, realization of or other disposition of any collateral which may have been provided to the Agent for the obligations of the Borrower hereunder after the occurrence of an Event of Default (including without limitation insurance proceeds), shall be applied by the Agent as follows, unless otherwise agreed by all the Banks:

(i) first, to reimburse the Agent for out-of-pocket costs, expenses and disbursements, including without limitation reasonable attorneys' fees and legal expenses, incurred by the Agent in connection with collection of any obligations of the Borrower under any of the Loan Documents;

(ii) second, to accrued and unpaid interest on the Loans;

(iii) third, to the principal amount of the Loans then outstanding;

(iv) fourth, to fees payable under this Agreement or any of the other Loan Documents (ratably according to the respective amounts then outstanding);

(v) fifth, to the repayment of all other indebtedness then due and unpaid of the Borrower to the Banks incurred under this Agreement or any of the other Loan Documents, whether of principal, interest, fees, expenses or otherwise (ratably according to the respective amounts then outstanding); and

(vi) the balance, if any, as required by law.

(e) Each Bank agrees that (i) if at any time it shall receive the proceeds of any collateral or any proceeds thereof or (ii) if after the occurrence of an Event of Default it shall receive any payment on account of the Loans or any other amounts owing hereunder or under the other Loan Documents (in either case other than through application by the Agent in accordance with subsection 7.2(d)), it shall promptly turn the same over to the Agent for application in accordance with the terms of subsection 7.2(d).

(f) In addition to the other rights and remedies contained in this Agreement or in the other Loan Documents, the Loans shall, at the Required Banks' option, bear the interest rates provided in Section 2.6 hereof.

(g) In addition to all of the rights and remedies contained in this Agreement or in any of the other Loan Documents, the Agent shall have all of the rights and remedies under applicable Law, all of which rights and remedies shall be cumulative and non-exclusive, to the extent permitted by Law. The Agent may, and upon the request of the Required Banks shall, exercise all post-default rights granted to it and the Banks under the Loan Documents or applicable Law.

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SECTION 8. THE AGENT

8.1 Appointment. Each Bank hereby irrevocably designates and appoints PNC as the Agent of such Bank under this Agreement. Each such Bank irrevocably authorizes the Agent, as the agent for such Bank to take such action on its behalf under the provisions of this Agreement and to exercise such powers and perform such duties as are expressly delegated to the Agent by the terms of this Agreement, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Bank, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Agent. The Agent agrees to act as the Agent on behalf of the Banks to the extent provided in this Agreement.

8.2 Delegation of Duties. The Agent may execute any of its duties under this Agreement by or through agents or attorneys-in-fact and shall be entitled to engage and pay for the advice and services of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible to the Banks for the negligence or misconduct of any agents or attorneys in-fact selected by it with reasonable care.

8.3 Exculpatory Provisions. Neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (i) liable to any of the Banks for any action lawfully taken or omitted to be taken by them or such Person under or in connection with this Agreement (except for their or such Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to any of the Banks for any recitals, statements, representations or warranties made by the Borrower or any officer thereof contained in this Agreement or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, the Notes or the other Loan Documents or for any failure of the Borrower to perform its obligations hereunder or thereunder. The Agent shall not be under any obligation to any Bank to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or the other Loan Documents, or to inspect the properties, books or records of the Borrower.

8.4 Reliance by Agent. The Agent shall be entitled to rely, and shall be fully protected in relying, upon any Note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Agent. The Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Agent. The Agent shall be fully justified in failing or refusing to take any action under this Agreement unless it shall first receive such advice or concurrence of the Required Banks as they deem appropriate or they shall first be indemnified to its satisfaction by the Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement, the Notes and the other Loan Documents in accordance with a request of the Required Banks, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Banks and all future holders of the Notes.

8.5 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless they have received notice from a Bank or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give notice thereof to the Banks. The Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Banks; provided that unless and until the Agent shall have received such directions, the Agent may (but shall not be

obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Banks.

8.6 Non-Reliance on Agent and Other Banks. Each Bank expressly acknowledges that neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by the Agent hereinafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Agent to any Bank. Each Bank represents to the Agent that it has, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and enter into this Agreement. Each Bank also represents that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Borrower. Except for notices, reports and other documents expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of the Borrower which may come into the possession of the Agent or any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates.

8.7 Indemnification. The Banks agree to indemnify the Agent in its capacity as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to their respective Pro-Rata Percentages, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the payment of the Notes) be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of this Agreement, the other Loan Documents, or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by the Agent under or in connection with any of the foregoing; provided that no Bank shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from the Agent's gross negligence or willful misconduct. The agreements in this Section 8.7 shall survive the payment of the Notes and all other amounts payable hereunder.

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8.8 Agent in its Individual Capacity. The Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower as though it was not the Agent hereunder. With respect to its Loans made or renewed by it and any Note issued to it, the Agent shall have the same rights and powers under this Agreement as any Bank and may exercise the same as though it were not the Agent, and the terms "Bank" and "Banks" shall include the Agent in its individual capacity.

8.9 Successor Agent. The Agent may resign as Agent upon sixty (60) days' notice to the Banks and the Borrower. If such Agent shall resign as Agent under this Agreement, then the Required Banks shall appoint from among the Banks a successor agent for the Banks, which appointment shall be subject to the approval of the Borrower (which approval shall not be unreasonably withheld), whereupon such successor agent shall succeed to the rights, powers and duties of an Agent, and the term "Agent" shall mean such successor agent effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent or any of the parties to this Agreement or any holders of the Notes. After any retiring Agent's resignation as Agent, the provisions of this Section 8.9 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

8.10 Beneficiaries. Except as expressly provided herein, the provisions of this Section 8 are solely for the benefit of the Agent and the

Banks, and the Borrower shall not have any rights to rely on or enforce any of the provisions hereof. In performing their functions and duties under this Agreement the Agent shall act solely as agent of the Banks and does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency or trust with or for the Borrower.

8.11 USA Patriot Act. Each Bank or assignee or participant of a Bank that is not incorporated under the laws of the United States of America or a state thereof (and is not excepted from the certification requirement contained in Section 313 of the USA Patriot Act and the applicable regulations because it is both (i) an affiliate of a depository institution or foreign bank that maintains a physical presence in the United States or foreign country, and (ii) subject to supervision by a banking authority regulating such affiliated depository institution or foreign bank) shall deliver to the Agent the certification, or, if applicable, recertification, certifying that such Bank is not a "shell" and certifying to other matters as required by Section 313 of the USA Patriot Act and the applicable regulations: (1) within 10 days after the Closing Date, and (2) at such other times as are required under the USA Patriot Act.

SECTION 9. MISCELLANEOUS

9.1 Amendments and Waivers. Neither this Agreement, any Note or any other Loan Document, nor any terms hereof of thereof may be amended, supplemented or modified except in accordance with the provisions of this subsection. With the written consent of the Required Banks, the Agent and the Borrower may, from time to time, enter into written amendments, supplements or modifications hereto and to the Notes and the other Loan Documents for the purpose of adding any provisions to this Agreement or the Notes or the other Loan Documents or changing in any manner the rights of the Banks or of the Borrower hereunder or thereunder or waiving, on such terms and conditions as the Agent may specify in such instrument, any of the requirements of this Agreement or the Notes or the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall directly or indirectly (a) reduce the amount or extend the maturity of any Note or any installment thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any Fees payable to any Bank hereunder, or change the duration or amount of any Bank's Commitment, in each case without the consent of the Bank affected thereby or (b) amend, modify or waive any provision of this Section 9.1 or reduce the percentages specified in the definition of Required Banks or consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, the Notes and the other Loan Documents, in each case without the written consent of all the Banks or (c) amend, modify or waive any provision of Section 8 without the written consent of the then Agent. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Banks and shall be binding upon the Borrower, the Banks, the Agent and all future holders of the Notes. In the case of any waiver, the Borrower, the Banks and the Agent shall be restored to their former position and rights hereunder and under the outstanding Notes, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

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9.2 Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including electronic transmission, facsimile transmission or posting on a secured web site), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered by hand, or three days after being deposited in the mail, postage prepaid, or, in the case of facsimile transmission notice, when sent during normal business hours with electronic confirmation or otherwise when received, or in the case of electronic transmission, when received and in the case of posting on a secured web site, upon receipt of (i) notice of such posting by another means set forth in this Section 9.2 (including the information necessary to access such web site) and (ii) rights to access such web site, addressed as follows in the case of the Borrower and the Agent, and as set forth in Schedule I in the case of the other parties hereto, or to such other address as may be hereafter notified by the respective parties hereto and any future holders of the Notes:

the Borrower: Philadelphia Suburban Corporation
762 W. Lancaster Avenue

Bryn Mawr, PA 19010-3489
Attention: Kathy L. Pape,
Vice President and Treasurer
Facsimile: (610) 519-0989

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with a copy to: Philadelphia Suburban Corporation
762 West Lancaster Avenue
Bryn Mawr, PA 19010
Attention: Roy H. Stahl
Executive Vice President, General Counsel and
Secretary
(provided that failure to send a copy of any notice to
said counsel shall in no way affect, limit or
invalidate any notice sent to the Borrower or the
exercise of any of the Banks' or the Agent's rights or
remedies pursuant to a notice sent to the Borrower.)

the Agent: PNC Bank, National Association 1000 Westlakes Drive,
Suite 200 Berwyn, PA 19312
Attention: Forrest B. Patterson, Jr.
Facsimile: (610) 725-5799
and
PNC Agency Services
One PNC Plaza
249 Fifth Avenue
22nd Floor
Pittsburgh, PA 15222
Attention: Andrea Gibb
Facsimile: (412) 762-8672

provided that any notice, request or demand to or upon the Agent or the Banks
pursuant to Sections 2.1 or 2.7 shall not be effective until received.

9.3 No Waiver; Cumulative Remedies. No failure to exercise and no delay
in exercising, on the part of the Agent or any Bank, any right, remedy, power or
privilege hereunder shall operate as a waiver thereof; nor shall any single or
partial exercise of any right, remedy, power or privilege hereunder preclude any
other or further exercise thereof or the exercise of any other right, remedy,
power or privilege. The rights, remedies, powers and privileges herein provided
are cumulative and not exclusive of any rights, remedies, powers and privileges
provided by law.

9.4 Survival of Representations and Warranties. All representations and
warranties made hereunder and in any document, certificate or statement
delivered pursuant hereto or in connection herewith shall survive the execution
and delivery of this Agreement, the Notes and the other Loan Documents.

9.5 Payment of Expenses and Taxes. The Borrower agrees (a) to pay or
reimburse the Agent for all of its reasonable out-of-pocket costs and expenses
incurred in connection with any amendment, supplement or modification to this
Agreement, the Notes, the other Loan Documents and any other documents prepared
in connection therewith, including, without limitation, the reasonable fees and
disbursements of counsel to the Agent (which counsel may or may not include
employees of the Agent), (b) to pay or reimburse each Bank and the Agent for all
of their costs and expenses incurred in connection with the enforcement or
preservation of any rights under this Agreement, the other Loan Documents and

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any such other documents, including, without limitation, reasonable fees and
disbursements of counsel to the Agent (which counsel may or may not include
employees of the Agent) and to the several Banks, and (c) to pay, indemnify, and
hold each Bank and the Agent harmless from, any and all recording and filing
fees and any and all liabilities with respect to, or resulting from any delay in
paying, stamp, excise and other similar taxes, if any (other than Taxes
expressly excluded from the definition of Taxes in Section 2.10 and Taxes for
which the Borrower has no liability under subsection 2.10(c)) which may be
payable or determined to be payable in connection with the execution and
delivery of, or consummation of any of the transactions contemplated by, or any
amendment, supplement or modification of, or any waiver or consent under or in

respect of, this Agreement, the Notes, the other Loan Documents, and any such other documents, and (d) to pay, indemnify, and hold each Bank and the Agent harmless from and against any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, and, incident to a Default or Event of Default, the performance and administration, of this Agreement, the Notes, the other Loan Documents and any such other documents or the transactions contemplated hereby or thereby or any action taken or omitted under or in connection with any of the foregoing (all the foregoing, collectively, the "indemnified liabilities"), provided, that the Borrower shall have no obligation hereunder to the Agent or any Bank with respect to indemnified liabilities arising from the gross negligence or willful misconduct of the Agent or any such Bank. The Borrower shall be given notice of any claim for indemnified liabilities and shall be afforded a reasonable opportunity to participate in the defense, compromise or settlement thereof. The agreements in this subsection shall survive repayment of the Notes and all other amounts payable hereunder.

9.6 Successors and Assigns. (a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party, and all covenants, promises and agreements by or on behalf of the Borrower, the Agent or the Banks that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns. The Borrower may not assign or transfer any of its rights or obligations under this Agreement or the other Loan Documents without the prior written consent of each Bank.

(b) Each Bank may, in accordance with applicable law, assign all or a portion of its interests, rights and obligations under this Agreement and the other Loan Documents (including the Loan at the time owing to it and the Note held by it); provided, however, that (i) each such assignment shall be to a Bank or Affiliate thereof, or, with the consent of the Agent and, prior to the occurrence of an Event of Default, of the Borrower (which consent shall not be unreasonably withheld or delayed) to one or more banks or other financial institutions; (ii) the amount of each such assignment shall not be less than the lesser of \$5,000,000 and the outstanding principal amount of such Bank's Loan; and (iii) the parties to each such assignment shall execute and deliver to the Agent an Assignment and Acceptance, together with the Note subject to such assignment and a processing and recordation fee of \$3,500 (except in the case of an assignment by any Bank to one of its Affiliates). Upon acceptance and

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recording pursuant to paragraph (d) of this Section 9.6, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Bank under this Agreement and (B) the assigning Bank thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.9, 2.10, 2.11 and 9.5 (to the extent that such Bank's entitlement to such benefits arose out of such Bank's position as a Bank prior to the applicable assignment)).

(c) By executing and delivering an Assignment and Acceptance, the assigning Bank thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Bank warrants that it is the legal and beneficial owner of the interest being assigned thereby, free and clear of any adverse claim, and that the outstanding balances of its Loan, without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance, (ii) except as set forth in (i) above, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the other Loan Documents, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or the other Loan Documents, or any other instrument or document furnished pursuant hereto or thereto, or the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such

Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.1 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Agent, such assigning Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

(d) The Agent shall maintain at its offices in Philadelphia, Pennsylvania a copy of each Assignment and Acceptance and the names and addresses of the Banks, and the principal amount of the Loan owing to each Bank pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive in the absence of error and the Borrower, the Agent and the Banks may treat each person whose name is recorded in the Register pursuant to the terms hereof as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower and any Bank, at any reasonable time and from time to time upon reasonable prior notice.

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(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Bank and an assignee together with the Note subject to such assignment, the processing and recordation fee referred to in paragraph (b) above, the Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Banks. Within five Business Days after receipt of notice, the Borrower, at its own expense, shall execute and deliver to the Agent, in exchange for the surrendered original Note, (x) a new Note to the order of such assignee in an amount equal to the portion of the outstanding Loan purchased by it pursuant to such Assignment and Acceptance and, (y) if the assigning Bank has retained a portion of the Loan, a new Note to the order of such assigning Bank in a principal amount equal to the portion of the outstanding Loan retained by it. Such new Notes shall be dated the date of the surrendered Note which it replaces and shall otherwise be in substantially the form of Exhibit A hereto. Canceled Notes shall be returned to the Borrower.

(f) Each Bank may without the consent of the Borrower or the Agent sell participations to one or more banks or other entities (each a "Participant") in all or a portion of its rights and obligations under this Agreement (including all or a portion of the Loan owing to it and the Note held by it); provided, however, that (i) such Bank's obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Bank shall remain the holder of any such Note for all purposes under this Agreement, (iv) the Borrower, the Agent and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, (v) in any proceeding under the Bankruptcy Code such Bank shall be, to the extent permitted by law, the sole representative with respect to the obligations held in the name of such Bank whether for its own account or for the account of any Participant and (vi) such Bank shall retain the sole right to enforce the obligations of the Borrower relating to the Loan and to approve any amendment, modification or waiver of any provision of this Agreement or the Note held by such Bank other than any such amendment, modification or waiver with respect to any Loan or Commitment in which such Participant has an interest and which is described in subsection 9.1(a) hereof.

(g) If amounts outstanding under this Agreement and the Notes are due or unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement and any Note to the same extent as if the amount of its participating interest were owing directly to it as a Bank under this Agreement or any Note, provided that in purchasing such participation such Participant shall be deemed to have agreed to share with the Banks the proceeds thereof as provided in Section 9.8. The Borrower also agrees that each Participant shall be

entitled to the benefits of Sections 2.9, 2.10, 2.11 and 9.5 with respect to its participation in the Loan outstanding from time to time; provided, that no Participant shall be entitled to receive any greater amount pursuant to such Sections than the Bank selling the participation would have been entitled to receive in respect of the amount of the participation transferred by such Bank to such Participant had no such transfer occurred.

(h) If any Participant is organized under the laws of any jurisdiction other than the United States or any state thereof, the Bank selling the participation, concurrently with the sale of a participating interest to such Participant, shall cause such Participant (i) to represent to the Bank selling the participation (for the benefit of such Bank, the other Banks, the Agent and the Borrower) that under applicable law and treaties no taxes will be required to be withheld by the Agent, the Borrower or the Bank selling the participation with respect to any payments to be made to such Participant in respect of its participation in the Loan and (ii) to agree (for the benefit of such Bank, the other Banks, the Agent and Borrower) that it will deliver the tax forms and other documents required to be delivered pursuant to Section 2.10 and comply from time to time with all applicable U.S. laws and regulations with respect to withholding tax exemptions.

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(i) Any Bank may at any time assign all or any portion of its rights under this Agreement and the Note issued to it to a Federal Reserve Bank; provided that no such assignment shall release a Bank from any of its obligations hereunder.

9.7 Confidentiality. The Banks agree that they will maintain all information and financial statements provided to them or otherwise obtained by them with respect to the Borrower and its Subsidiaries confidential and that they will not disclose the same or use it for any purposes; provided that nothing herein shall prevent any Bank from disclosing any such information (a) to the Agent or any other Bank, (b) to any prospective assignee or participant in connection with any assignment or participation of Loans permitted by this Agreement, (c) to its employees, directors, agents, attorneys, accountants and other professional advisers, provided that any such person is advised by such Bank that such information is subject to the confidentiality limitations of this Section, (d) upon the request or demand of any Governmental Authority having jurisdiction over such Bank, (e) in response to any order of any court or other Governmental Authority or as may otherwise be required pursuant to any Requirement of Law, provided that the Borrower has (unless prohibited by the terms of any such order or requirement) been advised at least ten (10) days (or if such is not possible or practicable, such lesser number of days as is possible or practicable under the circumstances) prior to such disclosure of the existence of such order or requirement, (f) which has been publicly disclosed other than in breach of this Agreement, or (g) in connection with the exercise of any remedy hereunder or under the Notes.

9.8 Adjustments; Set-off. (a) If any Bank (a "benefited Bank") shall at any time receive any payment of all or part of its Loan, or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set-off, pursuant to events or proceedings of the nature referred to in subsection 7(g), or otherwise), in a greater proportion than any such payment to or collateral received by any other Bank, if any, in respect of such other Bank's Loan, or interest thereon, being paid in respect of Loans being repaid simultaneously therewith or Loans required hereby to be paid proportionately, such benefited Bank shall purchase for cash from the other Banks such portion of each such other Bank's Loan, or shall provide such other Banks with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such benefited Bank to share the excess payment or benefits of such collateral or proceeds ratably with each of the Banks; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such benefited Bank, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. The Borrower agrees that each Bank so purchasing a portion of another Bank's Loan may exercise all rights of payment (including, without limitation, rights of set-off) with respect to such portion as fully as if such Bank were the direct holder of such portion.

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(b) In addition to any rights and remedies of the Banks

provided by law, upon the occurrence of an Event of Default, each Bank shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, upon any amount becoming due and payable by the Borrower hereunder or under the Notes (whether at the stated maturity, by acceleration or otherwise) to set-off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Bank to or for the credit or the account of the Borrower. Each Bank agrees promptly to notify the Borrower and the Agent after any such set-off and application made by such Bank, that the failure to give such notice shall not affect the validity of such set-off and application.

9.9 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and each of the Banks.

9.10 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

9.11 Integration. This Agreement represents the agreement of the Borrower, the Agent and the Banks with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Agent or any Bank relative to subject matter hereof not expressly set forth or referred to herein or in the Notes or the other Loan Documents.

9.12 GOVERNING LAW. THIS AGREEMENT, THE NOTES AND THE OTHER LOAN DOCUMENTS HAVE BEEN EXECUTED IN THE COMMONWEALTH OF PENNSYLVANIA AND SAID DOCUMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT, THE NOTES AND THE OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE COMMONWEALTH OF PENNSYLVANIA.

9.13 Submission To Jurisdiction; Waivers. The Borrower hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement, the Notes or the other Loan Documents, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the Courts of the Commonwealth of Pennsylvania, the courts of the United States of America for the Eastern District of Pennsylvania, and appellate courts from any thereof;

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(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Borrower at the address set forth in Section 9.2 for the Borrower or at such other address of which the Agent shall have been notified pursuant thereto; and

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

9.14 Acknowledgments. The Borrower hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement, the Notes and the other Loan Documents;

(b) neither the Agent nor any Bank has any fiduciary relationship to the Borrower, and the relationship between the Agent and the Banks, on one hand, and the Borrower, on the other hand, is solely that of debtor and creditor; and

(c) no joint venture exists among the Banks or between the Borrower and the Banks.

9.15 WAIVERS OF JURY TRIAL. EACH OF THE BORROWER, THE AGENT AND THE BANKS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT, THE NOTES OR THE OTHER LOAN DOCUMENTS AND FOR ANY COUNTERCLAIM THEREIN.

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

PHILADELPHIA SUBURBAN CORPORATION

By: \s\ Kathy L. Pape

Title: Vice President and Treasurer

PNC BANK, NATIONAL
ASSOCIATION, as Agent and as a
Bank

By: \s\ Forrest B. Patterson, Jr.

Title: Senior Vice President

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Schedule I

Bank and Commitment Information

Bank ----	Commitment -----
PNC Bank, National Association 100 Westlakes Drive, Suite 200 Berwyn, PA 19312 Attention: Forrest B. Patterson, Jr.	\$90,000,000

Schedule 3.6

Existing Litigation

None

Schedule 3.11

Regulatory Approvals

None

Schedule 3.13

Environmental Matters

None

Schedule 3.19

Interests in Partnerships

None

Schedule 6.2

Permitted Debt

Contingent Obligations

Guaranty and Suretyship Agreement between the Borrower and the Pennsylvania Infrastructure Investment Authority ("PENNVEST") dated March 12, 2002 securing payment of a loan from PENNVEST to Little Washington Wastewater Company in the amount of \$2,102,612.71.

Guaranty and Suretyship Agreement between the Borrower and PENNVEST dated March 12, 2002 securing payment of a loan from PENNVEST to Little Washington Wastewater Company in the amount of \$3,004,780.71.

Debt

\$135.0 Million 4.87% Unsecured Senior Notes, held by The Baltimore Life Insurance Company, The Equitable Life Assurance Society of the United States, MONY Life Insurance Company, Nationwide Life Insurance Company of America and Teachers Insurance and Annuity Association of America, or successor holders.

Schedule 6.3

Existing Liens

None

EXHIBIT A

NOTE

\$ _____

Philadelphia, Pennsylvania
July 31, 2003

FOR VALUE RECEIVED, the undersigned, PHILADELPHIA SUBURBAN CORPORATION (the "Borrower"), hereby promises to pay to the order of _____ (the "Bank"), at the office of PNC Bank, National Association (the "Agent"), at 1600 Market Street, Philadelphia, PA 19103, on the Maturity Date, the lesser of the principal sum of _____ Dollars (\$ _____) and the aggregate unpaid principal amount of the Loan made by the Bank to the Borrower pursuant to Section 2.1 of the Credit Agreement dated as of July 31, 2003, among the Borrower, the Banks party thereto and the Agent (as amended, modified, extended or restated from time to time, the "Agreement"), in lawful money of the United States of America in same day funds, and to pay interest from the date hereof on such principal amount from time to time outstanding, in like funds, at said office, at a rate or rates per annum and payable on the dates determined pursuant to the Agreement.

The Borrower promises to pay interest, on demand, on any overdue principal and, to the extent permitted by law, overdue interest from their due dates at the rate or rates determined as set forth in the Agreement.

The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever. The nonexercise by the holder of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

All borrowings evidenced by this Note and all payments and prepayments of the principal hereof and interest hereon and the respective dates thereof shall be endorsed by the holder hereof on the schedule attached hereto and made a part hereof, or on a continuation thereof which shall be attached hereto and made a part hereof, or otherwise recorded by such holder in its internal records; provided, however, that the failure of the holder hereof to make such a notation or any error in such a notation shall not in any manner affect the obligations of the Borrower to make payments of principal and interest in accordance with the terms of this Note and the Agreement.

This Note is one of the Notes referred to in, evidences indebtedness incurred under, and is entitled to the benefits of the Agreement. The Agreement, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional and mandatory prepayments of the principal hereof prior to the maturity hereof, for a higher rate of interest hereunder after an Event of Default and for the amendment or waiver of certain provisions of the Agreement, all upon the terms and conditions therein specified. This

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Note shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania and any applicable laws of the United States of America. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Agreement.

PHILADELPHIA SUBURBAN CORPORATION

By: _____
Name:
Title:

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Loans and Payments

Date	Amount of Loan	Interest Rate	Interest Period	Payments		Unpaid Principal Balance of Note	Name of Person Making Notation
				Principal	Interest		
----	-----	-----	-----	-----	-----	-----	-----

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EXHIBIT B

FORM OF
ASSIGNMENT AND ACCEPTANCE

Reference is made to the Credit Agreement dated as of July 31, 2003 (as amended, modified, extended or restated from time to time, the "Agreement"), among Philadelphia Suburban Corporation (the "Borrower"), the banks party thereto (the "Banks") and PNC Bank, National Association, as Agent. Terms defined in the Agreement are used herein with the same meanings.

_____ (the "Assignor") and _____ (the "Assignee") hereby agree as follows:

The Assignor hereby sells and assigns, without recourse, to the Assignee, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the Effective Date set forth on Schedule A attached hereto, the interests set forth on Schedule A (the "Assigned Interest") in the Assignor's rights and obligations under the Agreement, including, without limitation, the interests set forth on Schedule A in the Loan owing to the Assignor which is outstanding on the Effective Date, together with unpaid interest accrued on the assigned Loan to the Effective Date and the amount, if any, set forth on Schedule A of the Fees accrued to the Effective Date for the account of the Assignor. Each of the Assignor and the Assignee hereby makes and agrees to be bound by all the representations, warranties and agreements set forth in Section 9.6(c) of the Agreement, a copy of which has been received by each such party. From and after the Effective Date (i) the Assignee shall be a party to and be bound by the provisions of the Agreement and, to the extent of the interests assigned by this Assignment and Acceptance, have the rights and obligations of a Bank thereunder and under the Agreement or any other document issued in connection therewith and (ii) the Assignor shall, to the extent of the interests assigned by this Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement.

This Assignment and Acceptance is being delivered to the Agent together with (i) the Note evidencing the Loan included in the Assigned Interest, (ii) if the Assignee is organized under the laws of a jurisdiction outside the United States, the forms prescribed by the Internal Revenue Service of the United States certifying as to the Assignee's exemption from withholding taxes with respect to all payments to be made to the Assignee under the Agreement or such other documents as are necessary to indicate that all such payments are subject to such tax at a rate reduced by an applicable tax treaty, all duly completed and executed by such Assignee, and (iii) a processing and recordation fee of \$3,500, if required.

This Assignment and Acceptance shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

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The terms set forth above and on Schedule A attached hereto are hereby agreed to as of the date hereof.

_____, as Assignor

By: _____
Name:
Title:

_____, as Assignee

By: _____
Name:
Title:

Acknowledged:

PNC BANK, NATIONAL ASSOCIATION,
as Agent

By: _____
Name:
Title:

Consented to:

PHILADELPHIA SUBURBAN CORPORATION

By: _____
Name:
Title:

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SCHEDULE A

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

Attention: _____
Telecopy: _____

Effective Date of Assignment
(may not be fewer than 5 Business
Days after the Date of Assignment): _____

Principal Amount of Loan
Assigned

Pro-Percentage of Loans
Assigned

\$

%

=====

among
PHILADELPHIA SUBURBAN CORPORATION
and
THE BANKS PARTY HERETO
and
PNC BANK, NATIONAL ASSOCIATION
as Agent
and
PNC CAPITAL MARKETS, INC.
as Lead Arranger
Dated as of July 31, 2003
\$90,000,000

=====
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EXHIBITS

EXHIBIT A Form of Note
EXHIBIT B Form of Assignment and Acceptance

Certification

I, Nicholas DeBenedictis, Chairman, President and Chief Executive Officer of Philadelphia Suburban Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Philadelphia Suburban Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986.]
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2003

NICHOLAS DEBENEDICTIS

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer

Certification

I, David P. Smeltzer, Senior Vice President - Finance and Chief Financial Officer of Philadelphia Suburban Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Philadelphia Suburban Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986.]
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2003

DAVID P. SMELTZER

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

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q for the period ended September 30, 2003 of Philadelphia Suburban Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nicholas DeBenedictis, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

NICHOLAS DEBENEDICTIS

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer
November 13, 2003

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to Philadelphia Suburban Corporation and will be retained by Philadelphia Suburban Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q for the period ended September 30, 2003 of Philadelphia Suburban Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Smeltzer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

DAVID P. SMELTZER

David P. Smeltzer
Senior Vice President - Finance and Chief Financial Officer
November 13, 2003

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.2 is expressly and specifically incorporated by reference in any such filing.

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to Philadelphia Suburban Corporation and will be retained by Philadelphia Suburban Corporation and furnished to the Securities and Exchange Commission or its staff upon request.