WAIVER OF CERTAIN PROVISIONS OF PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(1)

(1) Internal Financial Reports – These have been filed previously with the Commission and can also be found in Sections 18 and 19 contained within this binder.

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(2)

(2) Annual Reports to Stockholders – Not applicable because Pittsfield Aqueduct Company, Inc. is a subsidiary of Pennichuck Corporation and has no other shareholders. Pennichuck Corporation's Annual Report to Shareholders is contained in this binder.

Federal Income Tax Reconciliation
Pittsfield Aqueduct Company, Inc.
December 31, 2012

Provided pursuant to NHPUC Rule 1604.01(3)

Net income per books for the test year	$	31,564
Addback provision for Federal and State income taxes		31,196
Pretax Book Income		62,759
Permanent Items:		
50% meals & entertainment expenses		-
Amortization of Municipal Acquisition Regulatory Asset (MARA		17,488
Disqualifying Dispositions (ISO's)		(1,448)
		16,040
Taxable Income		78,800
NHBPT (includes effect of permanent items)		6,672
Federal Income Tax (includes effect of permanent items)		24,523
Amortization of Investment Tax Credit		-
Total Income Taxes	$	31,196

Note: The following are temporary differences (Schedule M-1 items) that are recorded in Deferred Income Taxes:

Estimated Schedule M-1 Items:	
Accelerated depreciation/Amortization of CIAC	6,672
Book/Tax Difference on disposal of assets	24,523
Prior Year's Charitable Contributions	(8,003)
Prepaid Expenses	-
A/R Reserve	-
Deferred Debits	-
AFUDC	62,759
	85,952

Computation of Detailed Tax Factor
Pittsfield Aqueduct Company, Inc.
December 31, 2012

Provided pursuant to NHPUC Rule 1604.01(4)

Taxable Income	100.00%
Less: NH Business Profits Tax	8.50%
Federal Taxable Income	91.50%
Federal Income Tax Rate	34.00%
Effective Federal Income Tax Rate	31.11%
Add: NH Business Profits Tax	8.50%
Effective Tax Rate	39.61%
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	39.61%
Percent Used as a Divisor in Determining the Revenue Requirement	60.39%

WAIVER OF CERTAIN PROVISIONS OF PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(5)

(5) Charitable Contributions – None.

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(6)

(6) Advertising Charges Charged Above the Line – None.

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(7)

(7) Cost of Service Study – Latest cost of service study submitted in DW 10-090.

Pittsfield Aqueduct Company
Capital Expenditure Budget - 2013
($000)

Provided pursuant to NHPUC Rule 1604.01(8)

	Project Description	Project Rating	Total 2013 Incl O/H
2012 Carryover Projects - PAC			-
	Joy Street Water Main Final Paving		30
	Build new garage at Pittsfield plant site plan approval	4	15
	Subtotal 2012 Carryover Projects		45.00
New 2013 Projects - PAC			
	D/DBP Evaluation (study)		55
	Repair wall, paint and seal chemical area	1	8
	Replace six chemical storage tanks	1	7
	new meters for meter exchanges (25)	1	4
	Install 1 new service	1	4
	Complete 2 service renewals	1	8
	Install 1 new gate	1	4
	Subtotal New 2013 Projects		90.00
	Total 2013 Capital Projects Budget		**135.00**

2012 Carryover Projects - Total PAC	**45.00**
New 2013 Projects - Total PAC	**90.00**
Deferred Projects - 2013	
Total Capital Budget - PAC	**135.00**

Project Rating
1= must do, 2= defer, 3= discretionary, 4= deferred unless SRF funding avail

WAIVER OF CERTAIN PROVISIONS OF PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(9)

(9) Chart of Accounts – No Difference.

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(10)

(10) Forms 10K and 10Q – As a privately held corporation, Pennichuck Corporation is no longer required to file Forms 10K and Form 10Q.

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(11)

(11) Membership Fees and Dues – None.
Meetings and Conventions Dues – None.

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(12)

(12) Recent Management and Depreciation Studies – Latest depreciation study submitted in DW 08-052.

WAIVER OF CERTAIN PROVISIONS OF PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(13)

(13) Audits or Studies which Utility has not submitted to Commission – None.

Pennichuck Corporation
Officer and Director Compensation
For the years ended 12/31/11 and 12/31/12

Provided pursuant to NHPUC Rule 1604.01(14)

Officer Compensation	Title	For the Year Ended December 31, 2011: Normal Compensation [1]	For the Year Ended December 31, 2011: Former Public Company Related Compensation: Disqualifying Dispostions	For the Year Ended December 31, 2011: Total Compensation	For the Year Ended December 31, 2012: Normal Compensation 1	For the Year Ended December 31, 2012: Former Public Company Related Compensation (3): Separation Payments	Former Public Company Related Compensation (3): Cash in Lieu of Options	Former Public Company Related Compensation (3): Disqualifying Dispostions	Total Compensation
Duane Montopoli (2)	Former CEO	$ 363,323.21	$ -	$ 363,323.21	$ 35,407.98	$ 816,195.00	$ 797,800.00	$ -	$ 1,649,402.98
Thomas C Leonard (2)	Former CFO	$ 217,750.19	$ -	$ 217,750.19	$ 46,238.33	$ 395,309.00	$ 101,068.08	$ -	$ 542,615.41
Donald Ware	Current COO	$ 226,525.31	$ 65,197.63	$ 291,722.94	$ 193,827.79	$ -	$ 147,789.94	$ 4,902.45	$ 346,520.18
Stephen Densberger (2)	Former Sr. VP	$ 179,649.84	$ -	$ 179,649.84	$ 26,944.49	$ 347,093.00	$ 245,071.19	$ 28,630.47	$ 647,739.15
Roland Olivier (2)	Former Secretary	$ 194,673.76	$ -	$ 194,673.76	$ 36,098.63	$ 339,604.00	$ 162,225.20	$ -	$ 537,927.83
Bonalyn Hartley (2)	Former VP	$ 183,713.56	$ -	$ 183,713.56	$ 69,145.31	$ 330,311.00	$ 205,773.70	$ 27,703.83	$ 632,933.84
John Patenaude	Current CEO	n/a	n/a	n/a	$ 176,878.98	$ -	$ -	$ -	$ 176,878.98
Larry Goodhue	Current CFO	n/a	n/a	n/a	$ 140,024.67	$ -	$ 14,570.00	$ -	$ 154,594.67
Suzanne Ansara	Current Secretary	n/a	n/a	n/a	$ 46,810.15	$ -	$ -	$ -	$ 46,810.15

Notes:
(1) includes salary, bonuses, 401K match, taxable fringes and other compensation.
(2) no longer with company
(3) accounted for as merger related costs

Director Compensation		Director and Committee Fees - 2011	Director and Committee Fees - 2012	Comments
Joseph Bellavance	Former Director	$ 13,600.00	$ 1,283.06	Compensated thru 1/25/2012 - no longer with company
Steven Bolander	Former Director	$ 16,600.00	$ 1,883.06	Compensated thru 1/25/2012 - no longer with company
Charles Clough	Former Director	$ 14,200.00	$ 1,283.06	Compensated thru 1/25/2012 - no longer with company
Clarence Davis	Former Director	$ 16,600.00	$ 1,283.06	Compensated thru 1/25/2012 - no longer with company
Michael German	Former Director	$ 16,600.00	$ 1,883.06	Compensated thru 1/25/2012 - no longer with company
Janet Hansen	Former Director	$ 16,600.00	$ 1,283.06	Compensated thru 1/25/2012 - no longer with company
Robert Keller	Former Director	$ 19,100.00	$ 1,453.83	Compensated thru 1/25/2012 - no longer with company
John Kreick	Former Director	$ 21,300.00	$ 1,727.05	Compensated thru 1/25/2012 - no longer with company
Hannah McCarthy	Former Director	$ 14,200.00	$ 1,283.06	Compensated thru 1/25/2012 - no longer with company
James Murphy	Former Director	$ 18,100.00	$ 1,985.52	Compensated thru 1/25/2012 - no longer with company
Martha O'Neil	Former Director	$ 14,800.00	$ 1,283.06	Compensated thru 1/25/2012 - no longer with company
David Bernier	Current Director	n/a	$ 12,000.00	
Elizabeth Dunn	Current Director	n/a	$ 12,000.00	
Stephen Genest	Current Director	n/a	$ 12,000.00	
Paul Indeglia	Current Director	n/a	$ 12,000.00	
Thomas J Leonard III	Current Director	n/a	$ 12,000.00	
Jay Lustig	Current Director	n/a	$ 12,000.00	
John McGrath	Current Director	n/a	$ 12,000.00	
Casey, McMahon	Current Director	n/a	$ 12,000.00	
Preston Stanley, Jr.	Current Director	n/a	$ 12,000.00	

15 Voting Stock

As of January 25, 2012, officers and directors owned no voting stock in the Company or its parent, Pennichuck Corporation.

On January 25, 2012, in full settlement of an ongoing Eminent Domain lawsuit filed by the City of Nashua ("City") and with the approval of the New Hampshire Public Utilities Commission ("NHPUC"), the City acquired all of the outstanding shares of Pennichuck Corporation ("Pennichuck") and, thereby, indirect acquisition of its regulated subsidiaries. The entire purchase of $150.6 million was funded by General Obligation Bonds ("Bonds") issued by the City of Nashua. Pennichuck is not a party to the Bonds and has not guaranteed nor is obligated in any manner for the repayment of the Bonds. Pennichuck remains an independent corporation with an independent Board of Directors with the City of Nashua as its sole shareholder.

Pennichuck Water Works, Inc. ("PWW"), Pennichuck East Utility, Inc. ("PEU"), Pittsfield Aqueduct Company, Inc. ("PAC"), Pennichuck Water Service Corporation, and The Southwood Corporation will continue as subsidiaries of Pennichuck Corporation and PWW, PEU and PAC will continue as regulated companies under the jurisdiction of the New Hampshire Public Utilities Commission (NHPUC). The terms of the merger and the requisite accounting and rate-setting mechanisms were agreed to in the NHPUC Order 25,292 ("PUC Order") dated November 23, 2011.

Under the terms of the PUC Order, Pennichuck will issue a promissory note to the City of Nashua in the amount of $120 million to be repaid over a thirty (30) year period with monthly payments of $707,000 including interest at 5.75%. Also in accordance with the PUC Order, Pennichuck recorded an additional $30.5 million as contributed capital on which Pennichuck is required to pay dividends to the City based on certain revenue and rate assumptions. During 2012 dividends of $209.000 were paid to the City. Balance of the amount of the note payable to the City at December 31, 2012 was $117.9 million.

Pittsfield Aqueduct Company, Inc.
Contractual Services
For the Twelve Months Ended December 31, 2012

Provided pursuant to NHPUC Rule 1604.01(16)

Name	Address				Amount	Purpose
ELECTRICAL INSTALLATIONS, INC.	397 WHITTIER HWY	MOULTONBORO	NH	03254	43,115	Electrical Installations Provider & Maintenance Services
HACH COMPANY INC	2207 COLLECTIONS CENTER DRIVE	CHICAGO	IL	60693	12,948	Equipment Provider
HARCROS CHEMICALS, INC.	PO BOX 74583	CHICAGO	IL	60690	10,946	Chemical Provider
R.H. WHITE CONSTRUCTION CO., INC.	41 Central Street	AUBURN	MA	01501	53,750	Construction Services

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(17)

(17) Assets and Cost Allocations – We anticipate that no non-utility assets or operations will be included in the Company's financial statements for the test year.

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(18)

(18) Balance Sheet and Income Statements – The statements have either been filed previously with the Commission or will be filed as a part of the Company's rate case filing.

Pittsfield Aqueduct Company
Quarterly Income Statements
3 Months Ended

Provided pursuant to NHPUC Rule 1604.01(19)

	3/31/2008	6/30/2008	9/30/2008	12/31/2008	3/31/2009	6/30/2009	9/30/2009	12/31/2009
Water Revenues	$ 186,679	$ 195,398	$ 197,892	$ 524,855	$ 361,410	$ 337,624	$ 357,822	$ 482,826
Other	2,702	3,767	3,228	3,035	1,971	2,440	2,979	5,196
Total Revenues	189,381	199,165	201,120	527,890	363,381	340,064	360,801	488,022
Operating Expenses:								
Production	77,061	65,682	75,158	76,738	77,540	80,993	88,804	75,015
Trans & Distrib	37,271	49,049	48,023	45,426	47,050	49,925	83,540	62,330
Customer Accting	6,948	7,987	9,784	11,405	10,124	10,899	16,286	24,207
Admin & General	11,589	12,281	11,163	7,011	10,740	11,699	10,592	13,664
Interdiv Mgt Fee	99,599	104,594	97,315	118,302	108,173	98,953	123,964	119,906
	232,468	239,593	241,444	258,882	253,627	252,469	323,186	295,123
Depreciation/Amort	41,304	42,880	40,535	51,038	48,885	49,585	50,259	52,591
Amort Exp: CIAC	(6,119)	(6,119)	(6,269)	(5,806)	(17,689)	(6,107)	(6,107)	(6,107)
Amort Expense	3,617	2,924	2,921	5,707	3,751	3,595	3,514	3,514
Taxes other than Income	9,311	10,508	17,705	34,283	33,225	25,756	22,542	76,465
Income Taxes	(46,852)	(57,058)	(61,052)	18,371	(14,250)	(22,271)	(39,251)	1,275
	233,728	232,728	235,284	362,475	307,550	303,026	354,143	422,860
Operating Income	(44,347)	(33,563)	(34,164)	165,414	55,831	37,038	6,658	65,161
Other Income (Exp)	4,300	-	-	(159,545)	(17,485)	(14,006)	-	-
AFDUC	(9,737)	-	(1,229)	(8,145)	-	(4,903)	(1,438)	-
Interest on LTD	-	1,382	1,787	2,426	-	8,211	4,306	4,441
Interest on STD	-	-	-	-	3,905	(3,905)	-	-
Intercomany Interset	40,549	51,474	58,358	(16,189)	56,166	55,776	55,900	52,523
Amortization	573	573	-	-	-	-	-	-
	31,385	53,429	58,916	(21,908)	60,071	55,179	58,768	56,964
Net Income (Loss)	$ (71,432)	$ (86,991)	$ (93,080)	$ 27,776	$ (21,725)	$ (32,147)	$ (52,110)	$ 8,198

*** Included North Country and Pittsfield**

Pittsfield Aqueduct Company
Quarterly Income Statements
3 Months Ended

Provided pursuant to NHPUC Rule 1604.01(19)

	3/31/2010	6/30/2010	9/30/2010	12/31/2010	3/31/2011	6/30/2011	9/30/2011	12/31/2011	3/31/2012	6/30/2012	9/30/2012	12/31/2012
Water Revenues	$ 143,799	$ 151,318	$ 139,787	$ 159,082	$ 154,977	$ 229,762	$ 178,288	$ 169,129	$164,856	$ 171,351	$ 178,520	$ 169,242
Other	952	985	1,669	2,016	1,663	1,993	1,354	1,591	2,481	2,020	1,452	1,198
Total Revenues	144,751	152,303	141,456	161,098	156,640	231,755	179,642	170,720	167,337	173,371	179,972	170,440
Operating Expenses:												
Production	24,312	26,997	24,576	25,652	23,251	24,258	30,304	34,217	30,182	24,449	26,625	23,424
Trans & Distrib	12,603	19,598	12,198	17,565	44,899	16,235	13,517	20,688	19,350	16,217	19,598	14,492
Customer Accting	8,243	6,714	4,140	5,794	6,513	3,906	13,446	3,181	2,967	17,810	(4,783)	5,100
Admin & General	19,813	15,525	16,046	16,655	17,041	16,002	18,085	15,018	8,262	7,613	7,719	15,722
Interdiv Mgt Fee	46,570	40,245	38,479	44,288	49,270	39,023	38,668	44,809	39,893	33,560	31,600	28,169
	111,541	109,079	95,440	109,953	140,974	99,424	114,020	117,913	100,654	99,649	80,758	86,907
Depreciation/Amort	26,135	25,905	24,828	27,362	25,907	26,018	26,114	26,449	31,145	30,851	30,969	32,433
Amort Exp: CIAC	(5,723)	(5,723)	(5,723)	(5,723)	(5,723)	(5,723)	(5,723)	(5,723)	(5,723)	(5,723)	(5,723)	(5,723)
Taxes other than Income	21,831	(3,900)	15,845	27,012	30,709	8,595	19,652	24,111	24,953	22,557	22,557	27,301
Income Taxes	(9,521)	5,484	(1,159)	(4,604)	(19,458)	35,486	4,626	(2,353)	413	4,247	14,949	11,587
	144,262	130,845	129,230	154,000	172,410	163,800	158,689	160,397	151,443	151,580	143,510	152,505
Operating Income	489	21,458	12,226	7,098	(15,770)	67,955	20,953	10,322	15,894	21,792	36,462	17,935
Other Income (Exp)	-	-	-	-	-	-	-	-	-	(1,585)	-	(1,871)
AFDUC	-	-	-	-	-	-	-	-	-	-	-	-
Interest on LTD	-	801	-	-	-	-	-	-	-	-	-	-
Interest on STD	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Interest	(15,004)	(13,898)	(13,993)	(14,085)	(13,895)	(13,852)	(13,901)	(13,828)	(13,817)	(13,732)	(13,670)	(15,842)
Amortization	-	-	-	-	-	-	-	-	-	-	-	-
	(15,004)	(13,098)	(13,993)	(14,085)	(13,895)	(13,852)	(13,901)	(13,828)	(13,817)	(13,732)	(13,670)	(15,842)
Net Income (Loss)	$ (14,516)	$ 8,361	$ (1,767)	$ (6,988)	$ (29,665)	$ 54,103	$ 7,052	$ (3,506)	$ 2,077	$ 6,475	$ 22,791	$ 221

*** Pittsfield Only (Excludes North Country)**

Pittsfield Aqueduct
Quarterly Sales Volume Schedule for the Five Years from 2008 through 2012

Provided pursuant to NHPUC Rule 1604.01(20)

2008

Customer Type	March $	March Cons.	June $	June Cons.	September $	September Cons.	December $	December Cons.	Total $	Total Cons.
Residential	$ 62,367	13,195	$ 58,176	12,044	$ 64,878	14,132	$ 57,470	11,877	$ 242,891	51,248
Commercial	$ 13,944	2,232	$ 14,104	2,282	$ 14,673	2,438	$ 15,127	2,580	$ 57,848	9,532
Industrial	$ 2,650	310	$ 2,716	330	$ 2,648	310	$ 32,428	166	$ 40,442	1,116
Municipal	$ 32,983	285	$ 33,049	305	$ 32,534	149	$ 2,755	311	$ 101,322	1,050
	$ 111,944	16,022	$ 108,045	14,961	$ 114,733	17,029	$ 107,780	14,934	$ (1,006)	Abatements
									$ -	Other Adjustments
									$ 441,496	**Total Water Billed**
									$ (12,570)	Unbilled Revenue
									$ 94,737	Recoupment
									$ 523,663	62,946

2009

Customer Type	March $	March Cons.	June $	June Cons.	September $	September Cons.	December $	December Cons.	Total $	Total Cons.
Residential	$ 77,980	12,286	$ 75,318	10,828	$ 82,558	12,354	$ 76,850	11,156	$ 312,707	46,624
Commercial	$ 20,241	2,723	$ 19,957	2,306	$ 21,737	2,693	$ 20,603	2,463	$ 82,537	10,185
Industrial	$ 2,654	135	$ 2,899	129	$ 2,535	94	$ 2,933	143	$ 11,020	501
Municipal	$ 41,894	304	$ 46,351	319	$ 45,511	173	$ 46,310	349	$ 180,067	1,145
	$ 142,769	15,448	$ 144,526	13,582	$ 152,340	15,314	$ 146,697	14,111	$ (5,796)	Abatements
									$ (0)	Other Adjustments
									$ 580,535	**Total Water Billed**
									$ 27,603	Unbilled Revenue
									$ (7,536)	Recoupment
									$ 600,603	58,455

2010

Customer Type	March $	March Cons.	June $	June Cons.	September $	September Cons.	December $	December Cons.	Total $	Total Cons.
Residential	$ 90,880	11,974	$ 84,715	10,698	$ 93,145	12,406	$ 89,434	10,599	$ 358,174	45,677
Commercial	$ 20,862	2,347	$ 24,149	3,021	$ 23,210	2,791	$ 24,470	2,822	$ 92,691	10,981
Industrial	$ 2,542	102	$ 2,547	103	$ 2,703	135	$ 2,734	106	$ 10,525	446
Municipal	$ 34,106	341	$ 34,130	346	$ 33,203	155	$ 36,279	323	$ 137,717	1,165
	$ 148,389	14,764	$ 145,541	14,168	$ 152,261	15,487	$ 152,917	13,850	$ (6,853)	Abatements
									$ 0	Other Adjustments
									$ 592,256	**Total Water Billed**
									$ 1,730	Unbilled Revenue
									$ -	Recoupment
									$ 593,986	58,269

Pittsfield Aqueduct
Quarterly Sales Volume Schedule for the Five Years from 2008 through 2012

Provided pursuant to NHPUC Rule 1604.01(20)

2011

Customer Type	March $	March Cons.	June $	June Cons.	September $	September Cons.	December $	December Cons.	Total $	Total Cons.
Residential	$ 94,789	11,031	$ 90,840	10,305	$ 108,899	11,810	$ 98,036	9,910	$ 392,564	43,056
Commercial	$ 24,448	2,796	$ 22,161	2,364	$ 24,059	2,302	$ 23,566	2,218	$ 94,234	9,680
Industrial	$ 2,813	105	$ 3,377	178	$ 3,241	157	$ 3,150	123	$ 12,581	563
Municipal	$ 37,303	298	$ 37,287	296	$ 43,071	184	$ 43,974	302	$ 161,633	1,080
	$ 159,353	14,230	$ 153,665	13,143	$ 179,270	14,453	$ 168,726	12,553	$ (7)	Abatements
									$ -	Other Adjustments
									$ 661,006	**Total Water Billed**
									$ 7,229	Unbilled Revenue
									$ 63,920	Recoupment
									$ 732,155	54,379

2012

Customer Type	March $	March Cons.	June $	June Cons.	September $	September Cons.	December $	December Cons.	Total $	Total Cons.
Residential	$ 98,898	10,108	$ 104,884	11,115	$ 104,158	11,022	$ 103,665	10,804	$ 411,605	43,049
Commercial	$ 22,985	2,134	$ 23,509	2,221	$ 21,768	1,913	$ 22,170	1,971	$ 90,433	8,239
Industrial	$ 2,942	88	$ 3,246	139	$ 3,156	124	$ 3,013	102	$ 12,358	453
Municipal	$ 43,991	307	$ 44,176	340	$ 42,938	132	$ 44,081	329	$ 175,186	1,108
	$ 168,817	12,637	$ 175,815	13,815	$ 172,021	13,191	$ 172,928	13,206	$ (59)	Abatements
									$ -	Other Adjustments
									$ 689,523	**Total Water Billed**
									$ (5,484)	Unbilled Revenue
									$ (70)	Recoupment
									$ 683,969	52,849

Note: North Country water systems have been excluded in the 2008 and 2009 sales number for comparability. Prior to 2010, the North Country water systems were part of Pittsfield Aqueduct Company.

Pittsfield Aqueduct Company
Capital Expenditure Budget - 2013
($000)

Provided pursuant to NHPUC Rule 1604.01(21)

	Project Description	Project Rating	Total 2013 incl O/H
2012 Carryover Projects - PAC			-
	Joy Street Water Main Final Paving		30
	Build new garage at Pittsfield plant site plan approval	4	15
	Subtotal 2012 Carryover Projects		45.00
New 2013 Projects - PAC			
	D/DBP Evaluation (study)		55
	Repair wall, paint and seal chemical area	1	8
	Replace six chemical storage tanks	1	7
	new meters for meter exchanges (25)	1	4
	Install 1 new service	1	4
	Complete 2 service renewals	1	8
	Install 1 new gate	1	4
	Subtotal New 2013 Projects		90.00
	Total 2013 Capital Projects Budget		**135.00**

2012 Carryover Projects - Total PAC	**45.00**
New 2013 Projects - Total PAC	**90.00**
Deferred Projects - 2013	
Total Capital Budget - PAC	**135.00**

Project Rating
1= must do, 2= defer, 3= discretionary, 4= deferred unless SRF funding avail

Pittsfield Aqueduct Company
Capital Expenditure Budget - 2014
($000)

Provided pursuant to NHPUC Rule 1604.01(21)

	Project Description	Project Rating	Total 2014 incl O/H
2013 Carryover Projects - PAC			-
	Build new garage at Pittsfield plant	4	100
	Subtotal 2013 Carryover Projects		100.00
New 2014 Projects - PAC			
	Treatment Process Upgrade for DBP reduction		330
	Paint and seal filter area in plant	3	15
			-
	Install 1 new service	1	4
	Complete 2 service renewals	1	8
	Install 1 new gate	1	4
	Rebuild or replace 1 backwash pump	1	3
	Subtotal New 2014 Projects		364.00
	Total 2014 Capital Projects Budget		**464.00**

2013 Carryover Projects - Total PAC	**100.00**
New 2014 Projects - Total PAC	**364.00**
	-
Total Capital Budget - PAC	**464.00**

Project Rating
1= must do, 2= defer, 3= discretionary, 4= deferred unless SRF funding avail

Pittsfield Aqueduct

Annual Statement of Cash Flows
For the Twelve Months Ended December 31, 2013 and 2014

Provided pursuant to NHPUC Rule 1604.01(22)

	'2013	'2014
Operating Activities:		
Net Income	948	50,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	91,257	95,000
Gain on sale of land/cell tower leases	-	
Amortization of deferred investment tax credits	-	
Provision for deferred income taxes	622	700
Allowance for funds used during construction	-	
Undistributed earnings in real estate partnerships	-	
Special shareholder distributions	-	
Change in assets and liabilities:		
(Increase) decrease in accounts receivable and unbilled revenue	(4,798)	(6,000)
(Increase) decrease in refundable income taxes	-	-
(Increase) decrease in materials and supplies	-	-
(Increase) decrease in prepaid expenses	(98,045)	-
(Increase) decrease) in deferred charges and other assets	27,192	-
Increase (decrease) in accounts payable and accrued expenses	(11,059)	-
Increase (decrease) in other	131,175	(8,000)
Net cash provided by (used in) operating activities	137,292	131,700
Investing Activities:		
Purchases of property, plant and equipment	(135,000)	(464,000)
Contributions in aid of construction	-	
(Increase) decrease in restricted cash	-	
Sale (purchase) of investment securities	-	
Net (increase) decrease in notes receivable	-	
Proceeds from sale of land	-	
Net change in investment in real estate partnerships and deferred land costs	-	
Net cash provided by (used in) investing activities	(135,000)	(464,000)
Financing Activities:		
(Repayments) advances on line of credit	-	
Payments on long-term debt	-	
Proceeds on long-term borrowings	-	335,300
Debt issuance costs	(2,292)	(3,000)
Proceeds from issuance of common stock and dividend reinvestment plan	-	
Dividends paid	-	
Net cash provided by (used in) financing activities	(2,292)	332,300
Net increase (decrease) in cash	-	-
Cash at beginning of period	900	900
Cash at end of period	900	900

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(23)

(23) Sinking Fund Provisions – None.

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(24)

(24) Short Term Debt Outstanding – submitted with supporting schedules and exhibits for 1604.08 and labeled as Schedule 6.

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(25)

(25) Parent Company Information – 2012 & 2011 Audited Financial Statements and 2010 Form 10K Item 8 contained in this binder. 2009 and 2008 Annual Reports to Shareholders previously provided in DW 10-090.

Pennichuck Corporation and Subsidiaries

Audited Consolidated Financial Statements

December 31, 2012

MH&Co

Melanson Heath & Company, PC

Certified Public Accountants
Management Advisors

Reports and Financial Statements

Notes to Consolidated Financial Statements

MH&Co

MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholder
Pennichuck Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of Pennichuck Corporation and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

102 Perimeter Road, Nashua, NH 03063 • 149 Hanover Street, Manchester, NH 03101 • 10 New England Business Center Drive, Suite 107, Andover, MA 01810 • 51 Davis Street, Suite 1, Greenfield, MA 01301 • 104 Surry Road, Ellsworth, ME 04605

800.282.2440 • www.melansonheath.com

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pennichuck Corporation and Subsidiaries as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles general accepted in the United States of America.

Melanson, Heath + Company P.C.

March 4, 2013

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(in thousands, except share data)

	As of December 31, 2012
ASSETS	
Property, Plant and Equipment, net	$ 164,058
Current Assets:	
Cash and cash equivalents	873
Restricted cash	5,443
Accounts receivable - billed, net	2,380
Accounts receivable - unbilled, net	1,991
Inventory	751
Prepaid expenses	485
Prepaid property taxes	881
Deferred and refundable income taxes	148
Total Current Assets	12,952
Other Assets:	
Deferred land costs	2,251
Debt issuance expenses	3,623
Investment in real estate partnership	113
Other	10,272
Acquisition premium	83,261
Total Other Assets	99,520
TOTAL ASSETS	$ 276,530

The accompanying notes are an integral part of these consolidated financial statement:

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET - CONTINUED
(in thousands, except share data)

	As of December 31, 2012
STOCKHOLDER'S EQUITY AND LIABILITIES	
Stockholder's Equity:	
Common stock; $0.01 par value; 1,000 shares authorized, issued and outstanding	$ -
Additional paid in capital	30,561
Retained deficit	(2,366)
Accumulated other comprehensive income	35
Total Shareholders' Equity	28,230
Long Term Debt, Less Current Portion	174,279
Current Liabilities:	
Current portion of long term debt	2,780
Accounts payable	908
Accrued property taxes	57
Deferred revenue	61
Accrued interest payable	618
Other accrued expenses	127
Accrued wages and payroll withholding	262
Customer deposits and other	137
Total Current Liabilities	4,950
Other Liabilities and Deferred Credits:	
Deferred income taxes	20,625
Accrued pension liability	8,855
Unamortized debt premium	464
Deferred investment tax credits	669
Regulatory liability	846
Accrued post-retirement benefits	2,368
Customer advances	84
Contributions in aid of construction, net	33,533
Derivative instrument	825
Other long term liabilities	802
Total Other Liabilities and Deferred Credits	69,071
TOTAL STOCKHOLDER'S EQUITY AND LIABILITIES	$ 276,530

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
(in thousands)

	For the Year Ended December 31, 2012
Operating Revenues	$ 37,756
Operating Expenses:	
Operations and maintenance	18,540
Depreciation and amortization	5,173
Taxes other than income taxes	4,857
Total Operating Expenses	28,570
Operating Income	9,186
Merger-related Costs	(3,750)
Interest Expense	(9,615)
Gain on Sale of Land	1,629
Other, Net	(32)
Income (Loss) Before (Provision for) Benefit From Income Taxes	(2,582)
(Provision for) Benefit From Income Taxes	680
Net (Loss)	$ (1,902)

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in thousands)

	For the Year Ended December 31, 2012
Net (Loss)	$ (1,902)
Other Comprehensive Income (Loss):	
Unrealized loss on derivatives	(149)
Reclassification of net loss realized in net income	157
Retirement of old capital structure due to change in control	530
Income tax benefit relating to other comprehensive income	(3)
Other Comprehensive Income (Loss)	535
Comprehensive (Loss)	$ (1,367)

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
(in thousands, except per share data)

	Common Stock		Additional Paid in	Retained	Accumulated Other Comprehensive	Treasury	
	Shares	Amount	Capital	Earnings/(Deficit)	Income (Loss)	Stock	Total
Balance as of January 1, 2012	4,695,757	$ 4,696	$ 41,689	$ 11,132	$ (500)	$ (138)	$ 56,879
Exercise of stock options	1,067	1	20	-	-	-	21
Stock-based compensation	-	-	56	-	-	-	56
Retirement of old capital structure due to change in control	(4,696,824)	(4,697)	(41,765)	(11,386)	530	138	(57,180)
Issuance of common shares under new capital structure	1,000	-	30,561	-	-	-	30,561
Common dividends declared-$209.934 per share	-	-	-	(210)	-	-	(210)
Net loss	-	-	-	(1,902)	-	-	(1,902)
Other comprehensive income (loss):							
Unrealized loss on derivatives, net of taxes of $(60)	-	-	-	-	(89)	-	(89)
Reclassification of net loss realized in net income, net of taxes of $63	-	-	-	-	94	-	94
Balance as of December 31, 2012	1,000	$ -	$ 30,561	$ (2,366)	$ 35	$ -	$ 28,230

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

	For the Year Ended December 31, 2012
Operating Activities:	
Net (Loss)	$ (1,902)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	5,438
Amortization of original issue discount	12
Amortization of deferred investment tax credits	(33)
Provision for deferred income tax	(13)
Undistributed loss in real estate partnership	6
Stock-based compensation expense	56
Changes in assets and liabilities:	
Increase in accounts receivable and unbilled revenue	1,207
Decrease in refundable income taxes	(79)
Increase in materials and supplies	63
Increase in prepaid expenses	467
Decrease in deferred charges and other assets	491
(Decrease) in accounts payable and deferred revenue	(161)
Increase in accrued interest payable	(130)
Increase in other	1,654
Net cash provided by operating activities	7,076
Investing Activities:	
Purchase of property, plant and equipment including debt component of allowance for funds used during construction	(6,980)
(Increase) in restricted cash	(5,443)
Payments made in connection with merger-related activities	(143,971)
Increase in investment in real estate partnership and deferred land costs	294
Net cash used in investing activities	$ (156,100)

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

	For the Year Ended December 31, 2012
Financing Activities:	
Payments on long term debt	$ (3,697)
Contributions in aid of construction	55
Proceeds from long term borrowings	120,209
Debt issuance costs	(30)
Proceeds from issuance of common stock and dividend reinvestment plan	30,583
Dividends paid	(210)
Net cash provided by financing activities	146,910
Decrease in cash and cash equivalents	(2,114)
Cash and cash equivalents, beginning of period	2,987
Cash and cash equivalents, end of period	$ 873

Supplemental disclosure on cash flow and non-cash items for the year ended December 31, 2012 (in thousands)

	For the Year Ended December 31, 2012
Cash paid (refunded) during the period for:	
Interest	$ 9,512
Income taxes	186
Non-cash items:	
Contributions in aid of construction	1,133
Forgiveness of debt	42

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 – Description of Business and Summary of Significant Accounting Policies

Description of Business:

Pennichuck Corporation (our "Company," "we," or "our") is a holding company headquartered in Merrimack, New Hampshire with five wholly owned operating subsidiaries: Pennichuck Water Works, Inc., ("Pennichuck Water") Pennichuck East Utility, Inc., ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. ("PAC") (collectively referred to as our Company's "utility subsidiaries"), which are involved in regulated water supply and distribution to customers in New Hampshire; Pennichuck Water Service Corporation ("Service Corporation") which conducts non-regulated water-related services; and The Southwood Corporation ("Southwood") which owns several parcels of undeveloped land.

Our Company's utility subsidiaries are engaged principally in the collection, storage, treatment and distribution of potable water to approximately 34,500 customers throughout the State of New Hampshire. The utility subsidiaries, which are regulated by the New Hampshire Public Utilities Commission (the "NHPUC"), are subject to the provisions of Accounting Standards Codification ("ASC") Topic 980 "*Regulated Operations.*"

Summary of Significant Accounting Policies:

(a) Basis of Presentation

The accompanying consolidated financial statements include the accounts of our Company and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

(b) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Property, Plant and Equipment

Property, plant and equipment, which includes principally the water utility assets of our Company's utility subsidiaries, is recorded at cost plus an allowance for funds used during construction on major, long-term projects and includes property funded with contributions in aid of construction. The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets which range from 5 to 91 years. The weighted average composite depreciation rate was 2.48% in 2012. The components of property, plant and equipment as of December 31, 2012 were as follows:

(in thousands)	December 31, 2012	Useful Lives (in years)
Utility Property:		
Land and land rights	$ 2,911	-
Source of supply	50,027	34 - 75
Pumping and purification	28,794	15 - 35
Transmission and distribution, including services, meters and hydrants	119,638	40 - 91
General and other equipment	10,206	7 - 75
Intangible plant	766	20
Construction work in progress	1,063	
Total utility property	213,405	
Total non-utility property	5	5
Total property, plant and equipment	213,410	
Less accumulated depreciation	(49,352)	
Property, plant and equipment, net	$ 164,058	

Maintenance, repairs and minor improvements are charged to expense as incurred. Improvements which significantly increase the value of property, plant and equipment are capitalized.

(d) Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash, money market funds and other short-term liquid investments with original maturities of three months or less.

(e) Concentration of Credit Risks

Financial instruments that subject our Company to credit risk consist primarily of cash and accounts receivable. Our cash balances are invested both in a money market fund consisting of government-backed securities and in a financial institution insured by the Federal Deposit Insurance Corporation ("FDIC"). Our accounts receivable balances primarily represent amounts due from the residential, commercial and industrial customers of our regulated water utility operations as well as receivables from our Service Corporation customers.

(f) Accounts Receivable - Billed

Accounts receivable are recorded at the invoiced amounts. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable, and is determined based on historical write-off experience and the aging of account balances. We review the allowance for doubtful accounts quarterly. Account balances are written off against the allowance when it is probable the receivable will not be recovered.

(g) Accounts Receivable - Unbilled

We read our customer meters on a monthly basis and record revenues based on meter reading results. Information from the last meter reading date is used to estimate the value of unbilled revenues through the end of the accounting period. Estimates of water utility revenues for water delivered to customers but not yet billed are accrued at the end of each accounting period. Actual results could differ from those estimates.

(h) Inventory

Inventory is stated at the lower of cost, using the average cost method, or market.

(i) Deferred Land Costs

Included in deferred land costs is our Company's original basis in its undeveloped land-holdings and any land improvement costs, which are stated at the lower of cost or market. All costs associated with real estate and land projects are capitalized and allocated to the project to which the costs relate. Administrative labor and the related fringe benefit costs attributable to the acquisition, active development and construction of land parcels are capitalized as deferred land costs. No labor and benefits were capitalized for the year ended December 31, 2012.

(j) Deferred Charges and Other Assets

Deferred charges include certain regulatory assets and costs of obtaining debt financing. Regulatory assets are amortized over the periods they are recovered through NHPUC-authorized water rates. Deferred financing costs are amortized over the term of the related bonds and notes. Our Company's utility subsidiaries have recorded certain regulatory assets in cases where the NHPUC has permitted, or is expected to permit, recovery of these costs over future periods. Currently, the regulatory assets are being amortized over periods ranging from four to 25 years. Deferred charges and other assets as of December 31, 2012 consisted of the following:

(in thousands)	2012	Recovery Period (in years)
Regulatory assets:		
Source development charges	$ 820	5 - 25
Miscellaneous studies	608	4 - 25
Unrecovered pension and post-retirement benefits expense	8,096	(1)
Total regulatory assets	9,524	
Supplemental executive retirement plan asset	748	
Subtotal	10,272	
Deferred financing costs	3,623	(1)
Total deferred charges and other assets	$ 13,895	

(1) We expect to recover these amounts consistent with the anticipated expense recognition of these assets.

(k) Contributions in Aid of Construction ("CIAC")

Under construction contracts with real estate developers and others, our Company's utility subsidiaries may receive non-refundable advances for the cost of installing new water mains. These advances are recorded as CIAC. The utility subsidiaries also record to plant and CIAC the fair market value of developer installed mains and any excess of fair market value over the cost of community water systems purchased from developers. CIAC are amortized over the life of the property.

(l) Revenues

Standard charges for water utility services to customers are recorded as revenue, based upon meter readings and contract service, as services are provided. The majority of our Company's water revenues are based on rates approved by the NHPUC. Estimates of unbilled service revenues are recorded in the period the services are provided. Provision is made in the financial statements for estimated uncollectible accounts.

Non-regulated water management services include contract operations and maintenance, and water testing and billing services to municipalities and small, privately owned community water systems. Contract revenues are billed and recognized on a monthly recurring basis in accordance with agreed-upon contract rates. Revenues from unplanned additional work are based upon time and materials incurred in connection with activities not specifically identified in the contract, or for which work levels exceed contracted amounts.

Revenues from real estate operations, other than undistributed earnings or losses from equity method joint ventures, are recorded upon completion of a sale of real property. Our

Company's real estate holdings outside of our regulated utilities are comprised primarily of undeveloped land.

(m) Investment in Joint Venture

Southwood uses the equity method of accounting for its investment in a joint venture in which it does not have a controlling interest. Under this method, Southwood records its proportionate share of losses under "Other, net" in the accompanying Consolidated Statements of Income with a corresponding decrease in the carrying value of the investment.

(n) Income Taxes

Income taxes are recorded using the accrual method and the provision for federal and state income taxes is based on income reported in the consolidated financial statements, adjusted for items not recognized for income tax purposes. Provisions for deferred income taxes are recognized for accelerated depreciation and other temporary differences. A valuation allowance is provided to offset any net deferred tax assets if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Investment tax credits previously realized for income tax purposes are amortized for financial statement purposes over the life of the property, giving rise to the credit.

(o) Recently Issued Accounting Standards

We do not expect the adoption of any recently issued accounting pronouncements to have a material impact on our financial condition or results of operations.

Note 2 – Post-retirement Benefit Plans

Pension Plan and Other Post-retirement Benefits

We have a non-contributory, defined benefit pension plan (the "DB Plan") that covers substantially all employees. The benefits are based on years of service and participant compensation levels. Our funding policy is to contribute annual amounts that meet the requirements for funding under the U.S. Department of Labor's Pension Protection Act. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

We provide post-retirement medical benefits for eligible retired employees through one of two plans (collectively referred to as our "OPEB Plans"). For employees who retire on or after the normal retirement age of 65, benefits are provided through a post-retirement plan (the "Post-65 Plan"). For eligible employees who retire prior to their normal retirement age and who have met certain age and service requirements, benefits are provided through a post-employment medical plan (the "Post-employment Plan"). Future benefits under the Post-65 Plan increase annually based on the actual percentage of wage and salary increases earned from the plan inception date to the normal retirement date. The benefits under the Post-employment Plan allow for the continuity of medical benefits coverage at group rates from the employee's retirement date until the employee becomes eligible for Medicare. The OPEB Plans are funded from the general assets of our Company.

Upon retirement, if a qualifying employee elects to receive medical benefits under one of our OPEB Plans, we pay a maximum monthly benefit of $303 based on years of service.

The following table sets forth information regarding our DB Plan and our OPEB Plans as of December 31, 2012, and for the period from January 1, 2012 to December 31, 2012:

(in thousands)	DB Plan December 31, 2012	OPEB Plans December 31, 2012
Projected benefit obligations	$ 18,569	$ 3,212
Employer contribution	983	49
Benefits paid, excluding expenses	(369)	(49)
Fair value of plan assets	9,713	818
Accumulated benefit obligation	16,158	-
Funded status	(8,855)	(2,394)
Net periodic benefit cost	1,388	180
Amount of the funded status recognized in the Consolidated Balance Sheet consisted of:		
Current liability	$ -	$ (26)
Non-current liability	(8,855)	(2,368)
Total	$ (8,855)	$ (2,394)

Changes in plan assets and benefit obligations recognized in regulatory assets, for the period from January 1, 2012 to December 31, 2012, were as follows:

(in thousands)	DB Plan December 31, 2012	OPEB Plans December 31, 2012
Regulatory asset balance, beginning of period	$ 6,907	$ 1,208
Net actuarial loss/(gain) incurred during the period	1,352	(212)
Prior service cost incurred during the period	-	(785)
Recognized net actuarial (gain)/loss	(385)	11
Regulatory asset balance, end of period	$ 7,874	$ 222

The reduction in prior service cost recognized during 2012, as shown in the table above in the amount of $785,000, resulted from changes to certain underlying factors relating to future benefit costs, relating to one of the OPEB plans. The Post-65 Plan was changed as of

January 1, 2013 relating to the cost of underlying health insurance premiums for the plan, as well as a clearer definition of the basis for premium amounts anticipated for employees already collecting benefits from the plan, as well as future benefits to be earned by employees eligible under the plan, for which benefits have not yet been paid out. The resulting decrease in the liability of $785,000 will be amortized over the future working lifetime of active employees.

Amounts recognized in regulatory assets for the DB and OPEB Plans that have not yet been recognized as components of net periodic benefit cost of the following as of December 31, 2012:

(in thousands)	DB Plan December 31, 2012	OPEB Plans
Net actuarial (gain)/loss	$ 7,874	$ 384
Prior service cost	-	(162)
Regulatory asset	$ 7,874	$ 222

The key assumptions used to value benefit obligations and calculate net periodic benefit cost for our DB and OPEB Plans include the following:

Discount rate for net periodic benefit cost, beginning of period (a)	4.50%
Discount rate for benefit obligations, end of period	4.00%
Expected return on plan assets for the period (net of investment expenses)	7.50%
Rate of compensation increase, beginning of period	3.00%
Healthcare cost trend rate (applicable only to OPEB Plans)	10.00%

(a) An increase or decrease in the discount rate of 0.5% would result in a change in the funded status as of December 31, 2012, for the DB Plan and the OPEB Plans of approximately $1.4 million and $1.6 million, respectively.

The estimated net actuarial loss for our DB Plan that will be amortized in 2013 from the regulatory assets into net periodic benefit costs is $435,000. The estimated net actuarial loss and prior service cost for our OPEB Plans that will be amortized in 2013 from the regulatory assets into net periodic benefit costs is $2,000 and $0, respectively.

In establishing its investment policy, our Company has considered the fact that the DB Plan is a major retirement vehicle for its employees and the basic goal underlying the establishment of the policy is to provide that the assets of the Plan are invested in accordance with the asset allocation range targets to achieve our expected return on Plan assets. Our Company's investment strategy applies to its OPEB Plans as well as the DB Plan. Our expected long-term rate of return on DB Plan and OPEB Plan assets is based on the Plans' expected asset allocation, expected returns on various classes of Plan assets as well as historical returns.

The assets of our Post-65 Plan are held in two separate Voluntary Employee Beneficiary Association ("VEBA") trusts. We maintain our VEBA plan assets in directed trust accounts at a commercial bank.

The investment strategy for our DB Plan and our OPEB Plans utilizes several different asset classes with varying risk/return characteristics. The following table indicates the asset allocation percentages of the fair value of the DB Plan and OPEB Plans' assets for each major type of plan asset as of December 31, 2012, as well as the targeted allocation range:

	DB Plan		OPEB Plans	
		Asset Allocation Range		Asset Allocation Range
Equities	60%	30% - 100%	64%	30% - 100%
Fixed income	40%	20% - 70%	36%	0% - 50%
Cash and cash equivalents	0%	0% - 15%	0%	0% - 15%
Total	100%		100%	

Management uses its best judgment in estimating the fair value of its financial instruments. However, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts that we could have realized in a sales transaction for these instruments. The estimated fair value amounts have been measured as of year-end and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates.

Investments in mutual funds are stated at fair value by reference to quoted market prices. Money market funds are valued utilizing the Net Asset Value per unit based on the fair value of the underlying assets as determined by the directed trustee.

The DB Plan also holds assets under an immediate participation guarantee group annuity contract with a life insurance company. The assets under the contract are invested in pooled separate accounts and in a general investment account. The pooled separate accounts are valued based on net asset value per unit of participation in the fund and have no unfunded commitments or significant redemption restrictions at year-end. The value of these units is determined by the trustee based on the current market values of the underlying assets of the pooled separate accounts. Therefore, the value of the pooled separate accounts is deemed to be at estimated fair value.

The general investment account is not actively traded and significant other observable inputs are not available. The fair value of the general investment account is calculated by discounting the related cash flows based on current yields of similar instruments with comparable durations.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan's management believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain investments could result in a different fair value measurement at the reporting date.

We use a fair value hierarchy which prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The fair value of DB Plan and OPEB Plan assets by levels within the fair value hierarchy used as of December 31, 2012 was as follows:

(in thousands)	Totals	Level 1	Level 2	Level 3
DB Plan:				
Equities:				
Pooled separate accounts	$ 5,866	$ -	$ 5,866	$ -
Fixed Income:				
General investment account	1,704	-	-	1,704
Pooled separate accounts	2,143	-	2,143	-
Cash and cash equivalents:				
Money Market funds	-	-	-	-
Total Pension Plan	$ 9,713	$ -	$ 8,009	$ 1,704
OPEB Plans:				
Mutual funds:				
Balanced/hybrid funds	$ 179	$ 179	$ -	$ -
U.S. equity securities funds	274	274	-	-
International equity funds	67	67	-	-
Fixed income funds	297	297	-	-
Cash and cash equivalents:				
Money market funds	1	-	1	-
Total Post-retirement Plans	$ 818	$ 817	$ 1	$ -
Totals	$ 10,531	$ 817	$ 8,010	$ 1,704

Level 1: Based on quoted prices in active markets for identical assets.
Level 2: Based on significant observable inputs.
Level 3: Based on significant unobservable inputs.

The following table presents a period-end reconciliation of DB Plan assets measured and recorded at fair value on a recurring basis, using significant unobservable inputs (level 3):

(in thousands)	
Balance, beginning of period	$ 1,735
Plan transfers	285
Benefits paid	(369)
Return on plan assets (net of investment expenses)	53
Balance, end of period	$ 1,704

In order to satisfy the minimum funding requirements of the Employee Retirement Income Security Act of 1974, applicable to defined benefit pension plans, we anticipate that we will contribute approximately $1.0 million to the Plan in 2013.

The following maximum benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

(in thousands)	DB Plan	OPEB Plans
2013	$ 421	$ 66
2014	488	74
2015	550	83
2016	695	84
2017	751	95
2018 - 2022	5,168	747
Total	$ 8,073	$ 1,149

Because we are subject to regulation in the state in which we operate, we are required to maintain our accounts in accordance with the regulatory authority's rules and regulations. In those instances, we follow the guidance of ASC 980 ("Regulated Operations"). Based on prior regulatory practice, we recorded underfunded DB Plan and OPEB Plan obligations as a regulatory asset and we expect to recover those costs in rates charged to customers.

Defined Contribution Plan

In addition to the defined benefit plan, we have a defined contribution plan covering substantially all employees. Under this plan, our Company matches 100% of the first 3% of each participating employee's salary contributed to the plan. The matching employer's contributions, recorded as operating expenses, were approximately $205,000 for the period January 1, 2012 to December 31, 2012.

Note 3 - Commitments and Contingencies

Operating Leases

We lease our corporate office space as well as certain office equipment under operating lease agreements. Total rent expense was approximately $314,000 for the period from January 1, 2012 to December 31, 2012.

Our remaining non-cancelable lease commitments for our corporate office space and leased equipment as of December 31, 2012 were as follows:

(in thousands)	Amount
2013	$ 302
2014	286
2015	269
2016	269
2017	157
Total	$ 1,283

Note 4 – Financial Measurement and Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of its financial instruments. However, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts that we could have realized in a sales transaction for these instruments. The estimated fair value amounts have been measured as of the period end and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates.

We use a fair value hierarchy which prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

Level 1: Based on quoted prices in active markets for identical assets.

Level 2: Based on significant observable inputs.

Level 3: Based on significant unobservable inputs.

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For assets and liabilities measured at fair value on a recurring basis, the fair value measurement by levels within the fair value hierarchy used as of December 31, 2012 was as follows:

(in thousands)	Total	Level 1	Level 2	Level 3
Interest rate swap	$ (825)	$ -	$ (825)	$ -

The carrying value of certain financial instruments included in the accompanying Consolidated Balance Sheets, along with the related fair value, as of December 31, 2012 was as follows:

(in thousands)	Carrying Value	Fair Value
Liabilities:		
Long-term debt	$ (177,058)	$ (189,149)
Interest rate swap liability	(825)	(825)

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The fair value for long-term debt shown above does not purport to represent the amounts at which those debt obligations would be settled. The fair market value of our interest rate swap represents the estimated cost to terminate this agreement as of December 31, 2012 based upon the then-current interest rates and the related credit risk.

The carrying values of our Cash and Cash Equivalents, Accounts Receivable and Accounts Payable approximate their fair values because of their short maturity dates. The carrying value of our CIAC approximates its fair value because it is expected that this is the amount that will be recovered in future rates.

Note 5 – Income Taxes

The components of the federal and state income tax provision (benefit) as of December 31, 2012 were as follows:

(in thousands)	
Federal	$ (507)
State	(137)
Amortization of investment tax credits	(36)
Total	$ (680)
Current	$ (1,255)
Deferred	575
Total	$ (680)

The following is a reconciliation between the statutory federal income tax rate and the effective income tax rate for 2012:

Statutory federal rate	34.0%
State tax rate, net of federal benefits	5.5%
Permanent differences	-14.6%
Amortization of investment tax credits	1.4%
Effective tax rate	26.3%

The temporary items that give rise to the net deferred tax liability as of December 31, 2012 were as follows:

(in thousands)	
Liabilities:	
Property-related, net	$ 24,834
Pension deferred asset	3,119
Other	1,426
Total liabilities	29,379
Assets:	
Pension accrued liability	3,508
Federal net operating loss carryforward	1,858
Alternative minimum tax credit	240
NH Business Enterprise Tax credits	23
Other	3,125
Total assets	8,754
Net non-current deferred income tax liability	$ 20,625

We had a federal net operating loss in 2012 in the amount of approximately $4.1 million. The federal tax benefit of the net operating loss is approximately $1.4 million, of which approximately $200,000 was carried back to the 2011 tax year, and approximately $1.2 million can be carried forward until the year 2032, and is included in deferred income taxes in the consolidated balance sheet as of December 31, 2012.

As of December 31, 2012, we estimated approximately $240,000 of cumulative federal alternative minimum tax credits that may be carried forward indefinitely as a credit against our regular tax liability.

As of December 31, 2012, we had New Hampshire Business Enterprise Tax ("NHBET") credits of approximately $23,000, which were earned in 2012 and expire in 2017. We anticipate that we will fully utilize these NHBET credits before they expire; therefore we have not recorded a valuation allowance related to these credits.

Investment tax credits resulting from utility plant additions are deferred and amortized. The unamortized investment tax credits are being amortized through the year 2033.

We had a regulatory liability related to income taxes of approximately $846,000 as of December 31, 2012. This represents the estimated future reduction in revenues associated with deferred taxes which were collected at rates higher than the currently enacted rates and the amortization of deferred investment tax credits.

We made a review of our portfolio of uncertain tax positions. In this regard, an uncertain tax position represents our expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. As a result of this review, we determined that we had no material uncertain tax positions. We will use tax planning strategies, if required, and when possible, to avoid the expiration of any future net operating loss and/or tax credits.

We file income tax returns in the U.S. federal jurisdiction, the State of New Hampshire and the Commonwealth of Massachusetts. Our 2008, 2010 and 2011 tax years remain subject to examination by the Internal Revenue Service. Our tax year 2009 was audited by the Internal Revenue Service and the year was closed with no changes. Our 2008 through 2011 tax years remain subject to examination by the state jurisdictions.

Our practice is to recognize interest and/or penalties related to income tax matters in "Other, Net" in the Consolidated Statements of Income. We incurred no interest or penalties during the year ended December 31, 2012.

Note 6 – Debt

Long-term debt as of December 31, 2012 consisted of the following:

(in thousands)	
Unsecured note payable to City of Nashua, 5.75%, due 12/25/2041	$ 117,925
Unsecured senior note payable due to an insurance company 7.40%, due March 1, 2021	5,600
Unsecured Business Finance Authority:	
Revenue Bond (2005 Series BC-4), 5.375%, due October 1, 2035	12,130
Revenue Bond (2005 Series BC-3), 5.00%, due April 1, 2018	7,475
Revenue Bond (2005 Series A), 4.70%, due October 1, 2035	12,125
Revenue Bond (Series 2005A), 4.70%, due January 1, 2035	1,785
Revenue Bond (Series 2005B), 4.60%, due January 1, 2030	2,320
Revenue Bond (Series 2005C), 4.50%, due January 1, 2025	1,175
Revenue Bond, 1997, 6.30%, due May 1, 2022	3,000
Unsecured notes payable to bank, floating-rate, due March 1, 2030	4,058
Unsecured New Hampshire State Revolving Fund ("SRF") notes [1]	9,741
Total long-term debt	177,334
Less current portion	(2,780)
Less original issue discount	(275)
Total long-term debt, net of current portion	$ 174,279

[1] SRF notes are due through 2033 at interest rates ranging from 1% to 4.488%. These notes are payable in 120 to 240 consecutive monthly installments of principal and interest. The 1% rate applies to construction projects still in process until the earlier of (i) the date of substantial completion of the improvements, or (ii) various dates specified in the note (such earlier date being the interest rate change date). Commencing on the interest rate change date, the interest rate changes to the lower of (i) the rate as stated in the note or (ii) 80% of the established 11 General Obligations Bond Index published during the specified time period before the interest rate change date.

The aggregate principal payment requirements subsequent to December 31, 2012 are as follows:

(in thousands)	Amount
2013	$ 2,780
2014	2,875
2015	2,998
2016	3,127
2017	3,265
2018 and thereafter	162,289
Total	$ 177,334

Several of Pennichuck Water's loan agreements contain a covenant that prevents Pennichuck Water from declaring dividends if Pennichuck Water does not maintain a minimum net worth of $4.5 million. As of December 31, 2012, Pennichuck Water's net worth was $130.9 million. Pennichuck Water Works also has debt issuance covenants whereby they must also maintain a maximum total debt to capital ratio of 65%, a maximum funded debt to net property, plant and equipment ratio of 60%, and an interest coverage ratio of at least 1.5; at December 31, 2012 the total debt to capital ratio was 28%, the funded debt to net property, plant and equipment ratio was 39%, and the interest coverage ratio was 3.17.

Pennichuck East's loan agreement for its $4.1 million unsecured notes payable to a bank contains a minimum debt service coverage ratio requirement of 1.25; at December 31, 2012 this ratio was 1.69. Also, Pennichuck East is required to maintain a maximum ratio of total debt to total capitalization of 65%; at December 31, 2012 this ratio was 34%.

The Company's revolving credit loan facility with RBS Citizens which contains a covenant that requires the Company to maintain a minimum fixed charge coverage ratio of at least 1.0; at December 31, 2012 the fixed charge coverage ratio was 1.25. The Company is also required to maintain an equity capitalization ratio of not less than 35%; at December 31, 2012, the equity capitalization ratio was 52%. Under this agreement the Company is also precluded from declaring or paying dividends, or making any other payment or distribution of its equity without the bank's prior written consent, except for: (1) its obligations under Rate Order No. 25,292 as it pertains to the Company's specific obligations under the City Bond Fixed Revenue Requirement ("CBFRR") which provides for payments of approximately $707,000 per month of the note payable to the City of Nashua (the "City"), and quarterly dividends to the City for the remainder of this annual obligation, as defined by the order; and (2) a specific allowance, under Rate Order No. 25,292, whereby the Company is allowed to make distributions to the City from current earnings and profits in excess of the CBFRR, to provide funds to allow the City to reimburse itself for the costs incurred by the City relating to its efforts in pursuing the eminent domain proceedings from January 2002 through August 2009, provided however that such amount shall not exceed $500,000 in any fiscal year, or $5,000,000 in the aggregate, of all such distributions.

Our short-term borrowing activity under this revolving credit loan facility for the period from January 1, 2012 to December 31, 2012 was:

(in thousands)	
Established line as of December 31, 2012	$ 10,000
Maximum amount outstanding during period	-
Average amount outstanding during period	-
Amount outstanding as of December 31, 2012	-
Weighted average interest rate during period	n/a
Interest rate as of December 31, 2012	n/a

As of December 31, 2012, we had a $4.1 million interest rate swap which qualifies as a derivative. This financial derivative is designated as a cash flow hedge. This financial instrument is used to mitigate interest rate risk associated with our outstanding $4.1 million loan which has a floating interest rate based on the three-month London Interbank Offered Rate ("LIBOR") plus 1.75% as of December 31, 2012. The combined effect of the LIBOR-based borrowing formula and the swap produces an "all-in fixed borrowing cost" equal to 5.95%. The fair value of the financial derivative, as of December 31, 2012, included in our Consolidated Balance Sheets under "Deferred credits and other reserves" as "Other liabilities" was $825,000. Changes in the fair value of this derivative were deferred in accumulated other comprehensive loss.

Swap settlements are recorded in the statement of income with the hedged item as interest expense. During the period from January 1, 2012 to December 31, 2012, $157,000 was reclassified pre-tax from accumulated other comprehensive loss to interest expense as a result of swap settlements. We expect to reclassify approximately $158,000, pre-tax, from accumulated other comprehensive loss to interest expense as a result of swap settlements, over the next twelve months.

Note 7 – Transaction with the City of Nashua

On January 25, 2012, in full settlement of an ongoing Eminent Domain lawsuit filed by the City of Nashua ("City") and with the approval of the New Hampshire Public Utilities Commission ("NHPUC"), the City acquired all of the outstanding shares of Pennichuck Corporation ("Pennichuck") and, thereby, indirect acquisition of its regulated subsidiaries. The total amount of the acquisition was $150.6 million ("Acquisition Price") of which $138.4 million was for the purchase of the outstanding shares, $5.0 million for the establishment of a Rate Stabilization Fund, $2.6 million for legal and due diligence costs, $2.3 million for severance costs, $1.3 million for underwriting fees, and $1.0 million for bond discount and issue costs. The entire purchase of $150.6 million was funded by General Obligation Bonds ("Bonds") issued by the City of Nashua. Pennichuck is not a party to the Bonds and has not guaranteed nor is obligated in any manner for the repayment of the Bonds. Pennichuck remains an independent corporation with an independent Board of Directors with the City of Nashua as its sole shareholder.

Pennichuck Water Works, Inc. ("PWW"), Pennichuck East Utility, Inc. ("PEU"), Pittsfield Aqueduct Company, Inc. ("PAC"), Pennichuck Water Service Corporation, and The Southwood Corporation will continue as subsidiaries of Pennichuck Corporation and PWW, PEU and PAC will continue as regulated companies under the jurisdiction of the New Hampshire Public Utilities Commission. The terms of the merger and the requisite accounting and rate-setting mechanisms were agreed to in the NHPUC Order 25,292 ("PUC Order") dated November 23, 2011.

Transactions with Related Party – City of Nashua

Pennichuck issued a promissory note to the City of Nashua in the amount of approximately $120 million to be repaid over a thirty (30) year period with monthly payments of approximately $707,000, including interest at 5.75%. Pennichuck recorded an additional amount of approximately $30.6 million as contributed capital. During 2012 dividends of approximately $210,000 were declared and paid to the City. The remaining outstanding balance of the note payable to the City at December 31, 2012 was approximately $117.9 million, as disclosed in Note 6 to these consolidated financial statements.

Rate Stabilization Fund – Restricted Cash

As a part of the acquisition, Pennichuck agreed to contribute $5,000,000 of the proceeds from the settlement transaction to PWW, which was used to establish a Rate Stabilization Fund ("RSF"), allowing for the maintenance of stable water utility rates and providing a mechanism to ensure the Company's continued ability to meet its obligations under the promissory note to the City, in the event of adverse revenue developments. Restricted cash consists of amounts set aside in the RSF account, and is adjusted monthly as required in the PUC Order.

Municipal Acquisition Regulatory Asset ("MARA")

Pursuant to the PUC Order, Pennichuck established a new Regulatory asset (MARA) which represents the amount that the Acquisition Price exceeded the net book assets of Pennichuck's regulated subsidiaries (PWW, PEU, and PAC) at December 31, 2011. The initial amount of the MARA was approximately $89 million for the regulated companies, offset by a non-regulated amount of approximately $4.8 million. The MARA is to be amortized over a thirty (30) year period in the same manner as the principal amortization of the note to the City. The balance in the MARA at December 31, 2012 was approximately $88.1 million, reduced by the non-regulated credit of approximately $4.8 million.

Note 8 – Sale of Land

On January 24, 2012, Southwood sold a 38-acre parcel of undeveloped land for approximately $2.2 million. The resulting net gain from this transaction of approximately $1.6 million, is included in gain on sale of land on the accompanying consolidated statement of income.

Note 9 – Subsequent Events

The Company has evaluated the events and transactions that have occurred through March 4, 2013, the date that these financial statements were available for issuance, and noted no items requiring an adjustment to the financial statements or additional disclosure.

Pennichuck Corporation and Subsidiaries
Audited Consolidated Financial Statements
December 31, 2011 and 2010

ParenteBeard

CONFIDENCE THROUGH CLARITY

Reports and Financial Statements

Notes to Consolidated Financial Statements

ParenteBeard

Independent Auditors' Report

Board of Directors and Stockholders
Pennichuck Corporation

We have audited the accompanying consolidated balance sheet of Pennichuck Corporation (the "Company") as of December 31, 2011, and the related statements of income, shareholders' equity, comprehensive income, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pennichuck Corporation as of December 31, 2011, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Malvern, Pennsylvania
March 8, 2012

ParenteBeard

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Pennichuck Corporation

We have audited the accompanying consolidated balance sheet of Pennichuck Corporation (the "Company") as of December 31, 2010, and the related consolidated statements of income, shareholders' equity, comprehensive income, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pennichuck Corporation as of December 31, 2010, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Reading, Pennsylvania
March 4, 2011

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	As of December 31,	
	2011	**2010**
ASSETS		
Property, Plant and Equipment, net	$ 161,323	$ 158,796
Current Assets:		
Cash and cash equivalents	2,987	2,383
Accounts receivable, net of allowance of $52 and $54 in 2011 and 2010, respectively	2,223	2,153
Unbilled revenues	3,355	2,389
Materials and supplies	814	743
Deferred and refundable income taxes	68	717
Prepaid expenses	1,804	1,307
Total Current Assets	11,251	9,692
Other Assets:		
Deferred land costs	2,550	2,497
Deferred charges and other assets	14,163	10,502
Investment in real estate partnership	113	114
Total Other Assets	16,826	13,113
TOTAL ASSETS	$ 189,400	$ 181,601

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - CONTINUED
(in thousands, except share data)

	As of December 31, 2011	2010
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' Equity:		
Common stock–$1 par value;		
Authorized–11,500,000 shares in 2011 and 2010;		
Issued– 4,695,757 and 4,677,105 shares, respectively;		
Outstanding– 4,694,555 and 4,675,903 shares, respectively	$ 4,696	$ 4,677
Additional paid in capital	41,689	41,312
Retained earnings	11,132	10,488
Accumulated other comprehensive loss	(500)	(189)
Treasury stock, at cost; 1,202 shares in 2011 and 2010	(138)	(138)
Total Shareholders' Equity	56,879	56,150
Preferred stock, $100 par value, 15,000 shares authorized; and, no par value, 100,000 shares authorized, no shares issued in 2011 and 2010	—	—
Commitments and contingencies (Note 4)		
Long-term Debt, Less Current Portion	59,437	59,809
Current Liabilities:		
Current portion of long-term debt	1,096	1,062
Accounts payable	1,068	1,972
Accrued interest payable	749	701
Accrued wages and payroll withholding	591	565
Accrued liability - retainage	191	178
Other current liabilities	304	406
Total Current Liabilities	3,999	4,884
Deferred Credits and Other Reserves:		
Deferred income taxes	21,437	19,180
Deferred investment tax credits	702	735
Regulatory liability	868	890
Post-retirement health benefit obligation	3,217	1,708
Accrued pension liability	7,483	4,623
Other liabilities	2,300	1,738
Total Deferred Credits and Other Reserves	36,007	28,874
Contributions in Aid of Construction	33,078	31,884
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	$ 189,400	$ 181,601

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)

	Years Ended December 31, 2011	2010
Operating Revenues	$ 38,327	$ 36,492
Operating Expenses:		
Operations and maintenance	18,795	18,131
Depreciation and amortization	4,240	4,237
Taxes other than income taxes	4,480	4,028
Total Operating Expenses	27,515	26,396
Operating Income	10,812	10,096
Eminent Domain and Merger-related Costs	(764)	(514)
Interest Expense	(3,278)	(3,369)
Allowance for Funds Used During Construction	6	16
Other, Net	(14)	(49)
Income Before Provision for Income Taxes	6,762	6,180
Provision for Income Taxes	2,651	2,399
Net Income	$ 4,111	$ 3,781

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years Ended December 31,	
	2011	**2010**
Net Income	$ 4,111	$ 3,781
Other Comprehensive Loss		
Unrealized Loss on Derivatives	(688)	(459)
Reclassification of Net Loss Realized in Net Income	168	145
Income Tax Benefit Relating to Other Comprehensive Income	209	125
Other Comprehensive Loss	(311)	(189)
Comprehensive Income	$ 3,800	$ 3,592

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share and per share data)

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock
Balances as of December 31, 2009	4,652,260	4,652	40,619	10,086	—	(138)
Net income	—	—	—	3,781	—	—
Common stock offering	—	—	(6)	—	—	—
Dividend reinvestment plan	6,521	7	136	—	—	—
Stock-based compensation	—	—	239	—	—	—
Common dividends declared—$.725 per share	—	—	—	(3,379)	—	—
Exercise of stock options	18,324	18	326	—	—	—
Tax effect of disqualifying dispositions	—	—	(2)	—	—	—
Other comprehensive income:						
Unrealized loss on derivatives, net of tax benefit of $(183)	—	—	—	—	(276)	—
Reclassification adjustment for net loss realized in net income, net of tax benefit of $58	—	—	—	—	87	—
Balances as of December 31, 2010	4,677,105	$ 4,677	$ 41,312	$ 10,488	$ (189)	$ (138)
Net income	—	—	—	4,111	—	—
Stock-based compensation	—	—	109	—	—	—
Common dividends declared—$.74 per share	—	—	—	(3,467)	—	—
Exercise of stock options	18,652	19	240	—	—	—
Tax effect of disqualifying dispositions	—	—	28	—	—	—
Other comprehensive income:						
Unrealized loss on derivatives, net of tax benefit of $(275)	—	—	—	—	(413)	—
Reclassification adjustment for net loss realized in net income, net of tax benefit of $66	—	—	—	—	102	—
Balances as of December 31, 2011	4,695,757	$ 4,696	$ 41,689	$ 11,132	$ (500)	$ (138)

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,	
	2011	2010
Operating Activities:		
Net income	$ 4,111	$ 3,781
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,461	4,459
Amortization of original issue discount	12	12
Amortization of deferred investment tax credits	(33)	(33)
Provision for deferred income taxes	2,465	2,085
Equity component of allowance for funds used during construction	(3)	(8)
Undistributed loss in real estate partnership	5	7
Stock-based compensation expense	109	239
Changes in assets and liabilities:		
Increase in accounts receivable and unbilled revenues	(1,036)	(191)
Decrease (increase) in refundable income taxes	649	(643)
Increase in materials and supplies	(71)	(16)
Increase in prepaid expenses	(497)	(137)
(Increase) decrease in deferred charges and other assets	(3,544)	286
(Decrease) increase in accounts payable and deferred revenue	(907)	868
Increase (decrease) in accrued interest payable	48	(20)
Increase in other	4,350	700
Net cash provided by operating activities	10,119	11,389
Investing Activities:		
Purchase of property, plant and equipment, including debt component of allowance for funds used during construction	(5,907)	(8,507)
Proceeds from sales of property, plant and equipment	—	50
Increase in investment in real estate partnership and deferred land costs	(57)	(30)
Net cash used in investing activities	$ (5,964)	$ (8,487)

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
(in thousands)

	Years Ended December 31,	
	2011	2010
Financing Activities:		
Payments on long-term debt	$ (1,184)	$ (6,227)
Contributions in aid of construction	5	259
Proceeds from long-term borrowings	851	6,833
Debt issuance costs	(43)	(54)
Proceeds from issuance of common stock and dividend reinvestment plan	287	479
Dividends paid	(3,467)	(3,379)
Net cash used in financing activities	(3,551)	(2,089)
Increase in cash and cash equivalents	604	813
Cash and cash equivalents, beginning of year	2,383	1,570
Cash and cash equivalents, end of year	$ 2,987	$ 2,383

Supplemental disclosure on cash flow and non-cash items for the two years ended December 31, 2011 and 2010 is presented below.

(in thousands)	Years Ended December 31, 2011	2010
Cash paid (refunded) during the year for:		
Interest	$ 2,996	$ 3,156
Income taxes	(436)	746
Non-cash items:		
Contributions in aid of construction	1,897	680
Forgiveness of debt	20	8

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Description of Business, Acquisition of Company and Summary of Significant Accounting Policies

Description of Business:

Pennichuck Corporation (our "Company," "we," or "our") is a holding company headquartered in Merrimack, New Hampshire with five wholly-owned operating subsidiaries: Pennichuck Water Works, Inc., ("Pennichuck Water") Pennichuck East Utility, Inc., ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. (collectively referred to as our Company's "utility subsidiaries"), which are involved in regulated water supply and distribution to customers in New Hampshire; Pennichuck Water Service Corporation ("Service Corporation") which conducts non-regulated water-related services; and The Southwood Corporation ("Southwood") which owns several parcels of undeveloped land.

Our Company's utility subsidiaries are engaged principally in the collection, storage, treatment and distribution of potable water to approximately 34,200 customers throughout the State of New Hampshire. The utility subsidiaries, which are regulated by the New Hampshire Public Utilities Commission (the "NHPUC"), are subject to the provisions of Accounting Standards Codification ("ASC") Topic 980 "*Regulated Operations.*"

Acquisition of Company:

On January 25, 2012, the City of Nashua, New Hampshire (the "City") completed its acquisition of all of the outstanding voting securities of our Company in a merger transaction pursuant to the Agreement and Plan of Merger (the "Merger Agreement") dated as of November 11, 2010 between our Company and the City. The Merger Agreement provided for the purchase of all the outstanding common stock and common stock equivalents of our Company for $29.00 per share, or approximately $138 million in cash.

In connection with the Merger Agreement, the City and our Company agreed that this transaction constitutes full settlement of their eminent domain dispute. Shareholders of our Company approved the Merger Agreement at a Special Shareholder Meeting on June 15, 2011 and the NHPUC issued its order, which became effective December 23, 2011, approving the acquisition by the City on November 23, 2011.

Summary of Significant Accounting Policies:

(a) Basis of Presentation

The accompanying consolidated financial statements include the accounts of our Company and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

(b) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Property, Plant and Equipment

Property, plant and equipment, which includes principally the water utility assets of our Company's utility subsidiaries, is recorded at cost plus an allowance for funds used during construction on major, long-term projects and includes property funded with contributions in aid of construction. The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets which range from five to 91 years. The weighted average composite depreciation rate was 2.5% in 2011 and 2010. The components of property, plant and equipment as of December 31, 2011 and 2010 were as follows:

(in thousands)	2011	2010	Useful Lives (in years)
Utility Property:			
Land and land rights	$ 2,946	$ 2,994	—
Source of supply	49,729	49,304	34-75
Pumping & purification	28,427	28,072	15-35
Transmission & distribution, including services, meters and hydrants	115,335	109,817	40-91
General and other equipment	9,947	9,496	7-75
Intangible plant	760	747	20
Construction work in progress	563	684	
Total utility property	207,707	201,114	
Total non-utility property	5	5	5
Total property, plant & equipment	207,712	201,119	
Less accumulated depreciation	(46,389)	(42,323)	
Property, plant and equipment, net	$ 161,323	$ 158,796	

Maintenance, repairs and minor improvements are charged to expense as incurred. Improvements which significantly increase the value of property, plant and equipment are capitalized.

(d) Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash, money market funds and other short-term liquid investments with original maturities of three months or less.

(e) Concentration of Credit Risks

Financial instruments that subject our Company to credit risk consist primarily of cash and accounts receivable. Our cash balances are invested both in a money market fund consisting of government-backed securities and in a financial institution insured by the Federal Deposit Insurance Corporation ("FDIC"). Our accounts receivable balances primarily represent amounts due from the residential, commercial and industrial customers of our regulated water utility operations as well as receivables from our Service Corporation customers.

(f) Accounts receivable

Accounts receivable are recorded at the invoiced amounts. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable, and is determined based on historical write-off experience and the aging of account balances. We review the allowance for doubtful accounts quarterly. Account balances are written off against the allowance when it is probable the receivable will not be recovered.

(g) Unbilled Revenues

We read our customer meters on a monthly basis and record revenues based on meter reading results. Information from the last meter reading date is used to estimate the value of unbilled revenues through the end of the accounting period. Estimates of water utility revenues for water delivered to customers but not yet billed are accrued at the end of each accounting period. Actual results could differ from those estimates.

(h) Materials and Supplies

Inventory is stated at the lower of cost, using the average cost method, or market.

(i) Deferred Land Costs

Included in deferred land costs is our Company's original basis in its undeveloped landholdings and any land improvement costs, which are stated at the lower of cost or market. All costs associated with real estate and land projects are capitalized and allocated to the project to which the costs relate. Administrative labor and the related fringe benefit costs attributable to the acquisition, active development and construction of land parcels are capitalized as Deferred Land Costs. No labor and benefits were capitalized for the years ended December 31, 2011 and 2010.

(j) Deferred Charges and Other Assets

Deferred charges include certain regulatory assets and costs of obtaining debt financing. Regulatory assets are amortized over the periods they are recovered through NHPUC-authorized water rates. Deferred financing costs are amortized over the term of the related bonds and notes. Our Company's utility subsidiaries have recorded certain regulatory assets in cases where the NHPUC has permitted, or is expected to permit, recovery of these costs over future periods. Currently, the regulatory assets are being amortized over periods ranging from four to 25 years. Deferred charges and other assets as of December 31, 2011 and 2010 consisted of the following:

(in thousands)	2011	2010	Recovery Period (in years)
Regulatory assets:			
Source development charges	$ 876	$ 932	5-25
Miscellaneous studies	602	681	4-25
Sarbanes-Oxley costs	49	244	5
Unrecovered pension and post-retirement benefits expense	8,115	3,960	(1)
Total regulatory assets	9,642	5,817	

Franchise fees and other	—	7	
Supplemental executive retirement plan asset	692	636	(1)
Deferred financing costs	3,829	4,042	
Total deferred charges and other assets	$ 14,163	$ 10,502	

(1) We expect to recover these amounts consistent with the anticipated expense recognition of these assets.

(k) Treasury Stock

Treasury stock held by our Company represents shares that were tendered by employees as payment for existing outstanding options. Treasury stock received is recorded at its fair market value when tendered.

(l) Contributions in Aid of Construction ("CIAC")

Under construction contracts with real estate developers and others, our Company's utility subsidiaries may receive non-refundable advances for the cost of installing new water mains. These advances are recorded as CIAC. The utility subsidiaries also record to Plant and CIAC the fair market value of developer installed mains and any excess of fair market value over the cost of community water systems purchased from developers. The CIAC account is amortized over the life of the property.

(m) Revenues

Standard charges for water utility services to customers are recorded as revenue, based upon meter readings and contract service, as services are provided. The majority of our Company's water revenues is based on rates approved by the NHPUC. Estimates of unbilled service revenues are recorded in the period the services are provided. Provision is made in the financial statements for estimated uncollectible accounts.

Non-regulated water management services include contract operations and maintenance, and water testing and billing services to municipalities and small, privately owned community water systems. Contract revenues are billed and recognized on a monthly recurring basis in accordance with agreed-upon contract rates. Revenues from unplanned additional work are based upon time and materials incurred in connection with activities not specifically identified in the contract, or for which work levels exceed contracted amounts.

Revenues from real estate operations, other than undistributed earnings or losses from equity method joint ventures, are recorded upon completion of a sale of real property. Our Company's real estate holdings outside of our regulated utilities are comprised primarily of undeveloped land.

(n) Investment in Joint Venture

Southwood uses the equity method of accounting for its investment in a joint venture in which it does not have a controlling interest. Under this method, Southwood records its proportionate share of losses under "Other, net" in the accompanying Consolidated Statements of Income with a corresponding decrease in the carrying value of the investment. See Note 7, "Equity Investment in Unconsolidated Company" for further discussion of Southwood's equity investments.

(o) Allowance for Funds Used During Construction ("AFUDC")

AFUDC represents the estimated debt and equity costs of capital necessary to finance the construction of new regulated facilities. AFUDC consists of an interest component and an equity component. AFUDC is capitalized as a component of property, plant and equipment and has been reported separately in the Consolidated Statements of Income. The AFUDC rate was 7.38% in 2011 and 2010. The total amounts of AFUDC recorded for the years ended December 31, 2011 and 2010 were as follows:

(in thousands)	2011	2010
Debt (interest) component	$ 3	$ 8
Equity component	3	8
Total AFUDC	$ 6	$ 16

(p) Income Taxes

Income taxes are recorded using the accrual method and the provision for federal and state income taxes is based on income reported in the consolidated financial statements, adjusted for items not recognized for income tax purposes. Provisions for deferred income taxes are recognized for accelerated depreciation and other temporary differences. A valuation allowance is provided to offset any net deferred tax assets if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Investment tax credits previously realized for income tax purposes are amortized for financial statement purposes over the life of the property, giving rise to the credit.

(q) Recently Issued Accounting Standards

We do not expect the adoption of any recently issued accounting pronouncements to have a material impact on our financial condition or results of operations.

(r) Reclassifications

Certain Consolidated Balance Sheet amounts as of December 31, 2010 have been reclassified to conform to the December 31, 2011 Consolidated Balance Sheet presentation. These reclassifications had no effect on total assets or total liabilities and relate to the reclassification of forgivable debt from other long-term liabilities to current and long-term debt. The Consolidated Statements of Cash Flows for the year ended December 31, 2010 also reflect these reclassifications.

Note 2 – Post-retirement Benefit Plans

Pension Plan and Other Post-retirement Benefits

We have a non-contributory, defined benefit pension plan (the "DB Plan") that covers substantially all employees. The benefits are based on years of service and participant compensation levels. Our funding policy is to contribute annual amounts that meet the requirements for funding under the U.S. Department of Labor's Pension Protection Act. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

We provide post-retirement medical benefits for eligible retired employees through one of two plans (collectively referred to as our "OPEB Plans"). For employees who retire on or after the normal retirement age of 65, benefits are provided through a post-retirement plan (the "Post-65 Plan"). For employees who retire prior to their normal retirement age and who have met certain age and service requirements, benefits are provided through a post-employment medical plan (the "Post-employment Plan"). Future benefits under the Post-65 Plan increase annually based on the actual percentage of wage and salary increases earned from the plan inception date to the normal retirement date. The benefits under the Post-employment Plan allow for the continuity of medical benefits coverage at group rates from the employee's retirement date until the employee becomes eligible for Medicare. The OPEB Plans are funded from the general assets of our Company.

Upon retirement, if a qualifying employee elects to receive medical benefits under one of our OPEB Plans, we pay a maximum monthly benefit is $293 based on years of service.

The following table sets forth information regarding our DB Plan and our OPEB Plans as of, and for the years ended, December 31, 2011 and 2010:

	DB Plan as of December 31,		OPEB Plans as of December 31,	
(in thousands)	2011	2010	2011	2010
Projected benefit obligation	$ 15,648	$ 12,151	$ 3,975	$ 2,482
Employer contribution	1,032	514	52	42
Benefits paid, excluding expenses	(252)	(227)	(52)	(42)
Fair value of plan assets	8,165	7,528	727	734
Accumulated benefit obligation	13,696	10,728	n/a	n/a
Funded status	(7,483)	(4,623)	(3,249)	(1,748)
Net periodic benefit cost	996	895	294	210
Amounts of the funded status recognized in the Consolidated Balance Sheets as of December 31, 2011 and 2010 consisted of:				
Current liability	$ —	$ —	$ (31)	$ (40)
Non-current liability	(7,483)	(4,623)	(3,218)	(1,708)
Total	$ (7,483)	$ (4,623)	$ (3,249)	$ (1,748)

Changes in plan assets and benefit obligations recognized in regulatory assets, for the years ended December 31, 2011 and 2010, were as follows:

(in thousands)	DB Plan as of December 31, 2011	DB Plan as of December 31, 2010	OPEB Plans as of December 31, 2011	OPEB Plans as of December 31, 2010
Regulatory asset balance, beginning of year	$ 4,011	$ 3,799	$ (51)	$ 68
Net actuarial loss/(gain) incurred during the year	3,087	367	823	(106)
Prior service cost incurred during the year	—	—	471	—
Amortization of prior service cost	—	—	(49)	(22)
Recognized net actuarial (gain)/loss	(191)	(155)	13	9
Regulatory asset/(liability) balance, end of year	$ 6,907	$ 4,011	$ 1,207	$ (51)

The prior service cost incurred during 2011, as shown in the table above in the amount of $471,000, resulted from two changes to the OPEB plans. The Post-65 Plan was changed as of January 1, 2011 increasing the basis for current payments, from the lesser of a premium rate or the maximum allowable benefit, to the maximum allowable benefit. The resulting increase in a liability of $556,000 will be amortized over the future working lifetime of active employees. The Post-employment Plan was changed as of January 1, 2011 decreasing the Company's cost of medical premiums from 100% to 89%. The resulting decrease of $85,000 will be amortized over the future working lifetime of active employees.

Amounts recognized in regulatory assets for the DB and OPEB Plans that have not yet been recognized as components of net periodic benefit cost of the following at December 31, 2011 and 2010, respectively:

(in thousands)	DB Plan as of December 31, 2011	DB Plan as of December 31, 2010	OPEB Plans as of December 31, 2011	OPEB Plans as of December 31, 2010
Net actuarial (gain)/loss	$ 6,907	$ 4,011	$ 585	$ (251)
Prior service cost	—	—	622	200
Regulatory asset	$ 6,907	$ 4,011	$ 1,207	$ (51)

The key assumptions used to value benefit obligations and calculate net periodic benefit cost for our DB and OPEB Plans include the following:

	2011	2010
Discount rate for net periodic benefit cost, beginning of year	5.50%	6.00%
Discount rate for benefit obligations, end of year [(a)]	4.50%	5.50%
Expected return on plan assets for the year (net of investment expenses)	7.50%	7.50%
Rate of compensation increase, beginning of year	3.00%	3.00%
Healthcare cost trend rate (applicable only to OPEB Plans)	10.50%	11.00%

(a) An increase or decrease in the discount rate of 0.5%, would result in a change in the funded status as of December 31, 2011, for the DB Plan and the OPEB Plan's, of approximately $1.3 million and $384,000, respectively.

The estimated net actuarial loss for our DB Plan that will be amortized in 2012 from the regulatory assets into net periodic benefit costs is $367,000. The estimated net actuarial loss and prior service cost for our OPEB Plans that will be amortized in 2012 from the regulatory assets into net periodic benefit costs is $21,000 and $49,000, respectively.

In establishing its investment policy, our Company has considered the fact that the DB Plan is a major retirement vehicle for its employees and the basic goal underlying the establishment of the policy is to provide that the assets of the Plan are invested in accordance with the asset allocation range targets to achieve our expected return on Plan assets. Our Company's investment strategy applies to its OPEB Plans as well as the DB Plan. Our expected long-term rate of return on DB Plan and OPEB Plan assets is based on the Plans' expected asset allocation, expected returns on various classes of Plan assets as well as historical returns.

The assets of our Post-65 Plan are held in two separate Voluntary Employee Beneficiary Association ("VEBA") trusts. We maintain our VEBA plan assets in directed trust accounts at a commercial bank.

The investment strategy for our DB Plan and our OPEB Plans utilizes several different asset classes with varying risk/return characteristics. The following table indicates the asset allocation percentages of the fair value of the DB Plan and OPEB Plans' assets for each major type of plan asset as of December 31, 2011 and 2010, as well as the targeted allocation range:

	DB Plan			OPEB Plans		
	2011	2010	Asset Allocation Range	2011	2010	Asset Allocation Range
Equities	61%	67%	30% – 90%	64%	58%	30% – 90%
Fixed income	39%	33%	25% – 65%	36%	42%	10% – 40%
Cash and cash equivalents	0%	0%	0% – 15%	0%	0%	0% – 15%
Total	100%	100%		100%	100%	

The DB Plan held 21,000 shares of Pennichuck Corporation common stock as of December 31, 2011 and 2010, which is included in Equities in the table above. The fair value of this stock as of December 31, 2011 and 2010 was $605,000 and $575,000, respectively. Pennichuck Corporation stock held in the Plan represented 7.4% and 7.6% of the total DB Plan assets as of December 31, 2011 and 2010, respectively.

Management uses its best judgment in estimating the fair value of its financial instruments. However, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts that we could have realized in a sales transaction for these instruments. The estimated fair value amounts have been measured as of year end and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates.

Investments in PNNW common stock and mutual funds are stated at fair value by reference to quoted market prices. Money market funds are valued utilizing the Net Asset Value per unit based on the fair value of the underlying assets as determined by the directed trustee.

The DB Plan also holds assets under an immediate participation guarantee group annuity contract with a life insurance company. The assets under the contract are invested in pooled separate accounts and in a general investment account. The pooled separate accounts are valued based on net asset value per unit of participation in the fund and have no unfunded commitments or significant redemption restrictions at year-end. The value of these units is determined by the trustee based on the current market values of the underlying assets of the pooled separate accounts. Therefore, the value of the pooled separate accounts is deemed to be at estimated fair value.

The general investment account is not actively traded and significant other observable inputs are not available. Thc fair value of the general investment account is calculated by discounting the related cash flows based on current yields of similar instruments with comparable durations.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan's management believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain investments could result in a different fair value measurement at the reporting date.

We use a fair value hierarchy which prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The fair value of DB Plan and OPEB Plan assets by levels within the fair value hierarchy used as of December 31, 2011 was as follows:

(in thousands)	Totals	Level 1	Level 2	Level 3
DB Plan:				
Equities:				
Pooled separate accounts	$ 4,358	$ —	$ 4,358	$ —
PNNW common stock	605	605	—	—
Fixed Income:				
General investment account	1,735	—	—	1,735
Pooled separate accounts	1,451	—	1,451	—
Cash and cash equivalents:				
Money market funds	16	—	16	—
Total Pension Plan	$ 8,165	$ 605	$ 5,825	$ 1,735

OPEB Plans:				
Mutual funds:				
Balanced/hybrid funds	$ 166	$ 166	$ —	$ —
U.S. equity securities funds	239	239	—	—
International equity funds	57	57	—	—
Fixed income funds	264	264	—	—
Cash and cash equivalents:				
Money market funds	1	—	1	—
Total Post-retirement Plans	$ 727	$ 726	$ 1	$ —
Totals	$ 8,892	$ 1,331	$ 5,826	$ 1,735

The fair value of DB Plan and OPEB Plan assets by levels within the fair value hierarchy used as of December 31, 2010 was as follows:

(in thousands)	Totals	Level 1	Level 2	Level 3
DB Plan:				
Equities:				
Pooled separate accounts	$ 4,438	$ —	$ 4,438	$ —
PNNW common stock	575	575	—	—
Fixed Income:				
General investment account	1,850	—	—	1,850
Pooled separate accounts	646	—	646	—
Cash and cash equivalents:				
Money market funds	19	—	19	—
Total Pension Plan	$ 7,528	$ 575	$ 5,103	$ 1,850
OPEB Plans:				
Mutual funds:				
Balanced/hybrid funds	$ 162	$ 162	$ —	$ —
U.S. equity securities funds	177	177	—	—
International equity funds	85	85	—	—
Fixed income funds	309	309	—	—
Cash and cash equivalents:				
Money market funds	1	—	1	—
Total Post-retirement Plans	$ 734	$ 733	$ 1	$ —
Totals	$ 8,262	$ 1,308	$ 5,104	$ 1,850

Level 1: Based on quoted prices in active markets for identical assets.
Level 2: Based on significant observable inputs.
Level 3: Based on significant unobservable inputs.

The following table presents a year-end reconciliation of DB Plan assets measured and recorded at fair value on a recurring basis, using significant unobservable inputs (level 3):

(in thousands)	2011	2010
Balance, Beginning of Year	$ 1,850	$ 1,733
Plan transfers	76	161
Benefits paid	(252)	(227)
Return on plan assets (net of investment expenses)	61	183
Balance, End of Year	$ 1,735	$ 1,850

In order to satisfy the minimum funding requirements of the Employee Retirement Income Security Act of 1974, applicable to defined benefit pension plans, we anticipate that we will contribute approximately $1.2 million to the Plan in 2012.

The following maximum benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

(in thousands)	DB Plan	OPEB Plans
2012	$ 392	$ 78
2013	422	91
2014	484	99
2015	542	107
2016	679	120
2017-2021	4,537	864
Total	$ 7,056	$ 1,359

Because we are subject to regulation in the state in which we operate, we are required to maintain our accounts in accordance with the regulatory authority's rules and regulations. In those instances, we follow the guidance of ASC 980 ("Regulated Operations"). Based on prior regulatory practice, we recorded underfunded DB Plan and OPEB Plan obligations as a regulatory asset and we expect to recover those costs in rates charged to customers.

Defined Contribution Plan

In addition to the defined benefit plan, we have a defined contribution plan covering substantially all employees. Under this plan, our Company matches 100% of the first 3% of each participating employee's salary contributed to the plan. The matching employer's contributions, recorded as operating expenses, were approximately $211,000 and $178,000 for 2011 and 2010, respectively.

Note 3 - Stock-based Compensation Plan

Share-based payments to employees from grants of stock options are recognized as compensation expense in the consolidated financial statements based on their fair value on the grant date. For purposes of calculating the fair value of each stock grant as of the date of grant, our Company uses the Black Scholes Option Pricing model.

The impact of stock-based compensation on the Consolidated Statements of Income for the years ended December 31, 2011 and 2010 was as follows:

(in thousands)	Years Ended December 31, 2011	2010
Stock-based compensation	$ 109	$ 239
Income taxes	(44)	(96)
Stock-based compensation, net of tax	$ 65	$ 143

The total compensation cost related to non-vested stock option awards was approximately $34,000, net of tax as of December 31, 2011. These costs will be recognized the first quarter of 2012.

We have periodically granted our officers and key employees incentive and non-qualified stock options on a discretionary basis pursuant to two stock option plans, the 1995 Stock Option Plan (the "1995 Plan") and the Amended and Restated 2000 Stock Option Plan. On May 6, 2009, our shareholders approved an amendment to and restatement of the Amended and Restated 2000 Stock Option Plan to also allow for the issuance of restricted stock. As amended and restated, the plan has been renamed the 2009 Equity Incentive Plan (the "2009 Plan").

The 1995 Plan permits the granting of both incentive stock options and non-qualified stock options to employees at a price per share equivalent to the market value at the date of the grant. Options become exercisable immediately following the grant and expire ten years from the date of grant. As of December 31, 2011, no further shares were available for grant under the 1995 Plan.

The 2009 Plan provides for the granting of incentive stock options to employees and non-qualified stock options to employees and directors at a price per share equivalent to the market value at the date of the grant. Option grants have varying vesting schedules and expire ten years from the date of grant. The 2009 Plan also authorizes the granting of restricted stock awards to employees and directors. Originally, there were 500,000 total shares of common stock subject to issuance under the 2009 Plan. As of December 31, 2011 and 2010, 111,934 shares remained available for future grant under the 2009 Plan

The following table summarizes the activity under the stock option plans for the two-year period ended December 31, 2011.

	Number of Shares	Price per Share	Average Price per Share
Options outstanding as of December 31, 2009	222,691	$ 15.29-22.51	$ 19.61
Granted	71,900	20.11-21.14	20.54
Exercised	(26,182)	15.29-22.22	19.80
Canceled/forfeited	—	—	—
Options outstanding as of December 31, 2010	268,409	15.29-22.51	19.84
Granted	—	—	—
Exercised	(28,448)	15.29-21.24	18.81
Canceled/forfeited	—	—	—
Options outstanding as of December 31, 2011	239,961	$ 17.64-22.51	$ 19.96
Exercisable as of December 31, 2010	189,778	$ 15.29-22.51	$ 19.92
Exercisable as of December 31, 2011	199,362	17.64-22.51	20.09

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2011.

Options Outstanding				Options Exercisable	
Exercise Price	Number Outstanding As of 12/31/11	Remaining Contractual Life (in years)	Weighted Average Exercise Price Per Share	Number Exercisable As of 12/31/11	Weighted Average Exercise Price Per Share
$ 20.25	1,067	0.07	$ 20.25	1,067	$ 20.25
20.14	19,602	1.76	20.14	19,602	20.14
21.24	20,668	2.07	21.24	20,668	21.24
19.67	16,935	3.08	19.67	16,935	19.67
19.51	16,500	3.94	19.51	16,500	19.51
19.00	40,000	4.64	19.00	40,000	19.00
22.22	6,000	6.52	22.22	6,000	22.22
22.51	16,200	6.65	22.51	16,200	22.51
17.64	32,365	7.08	17.64	19,697	17.64
20.11	40,624	8.08	20.11	12,693	20.11
21.14	30,000	8.24	21.14	30,000	21.14
	239,961			199,362	

In accordance with the terms of the Merger Agreement, no options were granted in 2011. The weighted average fair value per share of options granted during 2010 was $3.69. The fair value of each option grant was estimated on the date of grant using the following assumptions:

	Years Ended December 31, 2011	2010
Risk-free interest rate	—	2.58 - 2.81%
Expected dividend yield	—	3.41 - 3.48%
Expected lives	—	5.41 - 5.45 years
Expected volatility	—	25.37 - 25.41%

Note 4 - Commitments and Contingencies

Operating Leases

We lease our corporate office space as well as certain office equipment under operating lease agreements. Total rent expense was approximately $320,000 and $346,000 for the years ended December 31, 2011 and 2010, respectively.

Our remaining non-cancelable lease commitments for our corporate office space and leased equipment as of December 31, 2011 were as follows:

(in thousands)	Amount
2012	$ 303
2013	170
2014	—
2015	—
2016	—
Total	$ 473

Note 5 – Shareholder Rights Plan

On April 20, 2000, our Board of Directors ("Board") adopted a Shareholder Rights Plan ("Rights Plan") and declared a dividend of one preferred share purchase right ("Right") for each outstanding share of common stock, $1.00 par value. The Rights would have become exercisable in the event that a person or group acquired, or commenced a tender or exchange offer to acquire, more than 15% (up to 20% with the prior approval of the Board) of our Company's outstanding common stock.

Effective October 29, 2010, our Board voted unanimously to extend the expiration date of the Rights under the Rights Plan from November 1, 2010 to the date of the 2011 annual meeting of our Company's shareholders, which was held on May 5, 2011 The Board did not propose any further extension of the expiration date of the Rights beyond the 2011 annual meeting and, accordingly, the Rights expired on May 5, 2011.

Note 6 – Financial Measurement and Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of its financial instruments. However, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts that we could have realized in a sales transaction for these instruments. The estimated fair value amounts have been measured as of their respective year ends and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates.

We use a fair value hierarchy which prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

Level 1: Based on quoted prices in active markets for identical assets.

Level 2: Based on significant observable inputs.

Level 3: Based on significant unobservable inputs.

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For assets and liabilities measured at fair value on a recurring basis, the fair value measurement by levels within the fair value hierarchy used as of December 31, 2011 and 2010 was as follows:

(in thousands)	December 31, 2011	Level 1	Level 2	Level 3
Interest rate swap	$ (834)	$ —	$ (834)	$ —

(in thousands)	December 31, 2010	Level 1	Level 2	Level 3
Interest rate swap	$ (314)	$ —	$ (314)	$ —

The carrying value of certain financial instruments included in the accompanying Consolidated Balance Sheets, along with the related fair value, as of December 31, 2011 and 2010 was as follows:

	2011		2010	
(in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities:				
Long-term debt	$ (60,533)	$ (55,169)	$ (60,871)	$ (56,465)
Interest rate swap liability	(834)	(834)	(314)	(314)

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The fair value for long-term debt shown above does not purport to represent the amounts at which those debt obligations would be settled. The fair market value of our interest rate swap represents the estimated cost to terminate this agreement as of December 31, 2011 and 2010 based upon the then-current interest rates and the related credit risk.

The carrying values of our Cash and Cash Equivalents, Accounts Receivable and Accounts Payable approximate their fair values because of their short maturity dates. The carrying value of our CIAC approximates its fair value because it is expected that this is the amount that will be recovered in future rates.

Note 7 - Equity Investment in Unconsolidated Company

As of December 31, 2011 and 2010, Southwood held a 50 percent ownership interest in a limited liability company known as HECOP IV. HECOP IV, whose assets and liabilities are not included in the accompanying Consolidated Balance Sheets, owns approximately nine acres of undeveloped land in Merrimack, New Hampshire. The remaining ownership interest in HECOP IV is held by John P. Stabile II, principal owner of H.J. Stabile & Son, Inc. The short-term cash needs of HECOP IV are expected to be funded by its partners on an on-going basis and are not expected to be significant.

Southwood uses the equity method of accounting for its investment in HECOP IV and accordingly, its investment is adjusted for its share of losses. For the years ended December 31, 2011 and 2010, Southwood's share of losses from its investment in HECOP IV was approximately $5,000 and $7,000, respectively. Southwood's share of losses is included under "Other, net" in the accompanying Consolidated Statements of Income.

Note 8 – Income Taxes

The components of the federal and state income tax provision as of December 31, 2011 and 2010 were as follows:

(in thousands)	2011	2010
Federal	$ 2,108	$ 1,937
State	576	495
Amortization of investment tax credits	(33)	(33)
Total	$ 2,651	$ 2,399
Current	$ 331	$ 661
Deferred	2,320	1,738
Total	$ 2,651	$ 2,399

The following is a reconciliation between the statutory federal income tax rate and the effective income tax rate for 2011 and 2010:

	2011	2010
Statutory federal rate	34.0 %	34.0 %
State tax rate, net of federal benefit	5.6 %	5.3 %
Permanent differences	(0.3)%	0.1 %
Amortization of investment tax credits	(0.5)%	(0.6)%
Other	0.4 %	— %
Effective tax rate	39.2 %	38.8 %

The temporary items that give rise to the net deferred tax liability as of December 31, 2011 and 2010 were as follows:

(in thousands)	2011	2010
Liabilities:		
Property-related, net	$ 24,708	$ 22,021
Pension deferred asset	2,736	1,589
Other	1,765	1,116
Total liabilities	29,209	24,726
Assets:		
Pension accrued liability	2,964	1,831
Federal net operating loss carryforward	991	862
Alternative minimum tax credit	384	374
NH Business Enterprise Tax credits	—	161
Other	3,433	2,318
Total assets	7,772	5,546
Net non-current deferred income tax liability	$ 21,437	$ 19,180

In determining the income reported in our consolidated financial statements, all merger-related costs, which totaled approximately $832,000 in the aggregate as of December 31, 2011, have been expensed as incurred. Furthermore, based upon the nature and timing of such costs and without assuming that the planned merger will be completed, we have elected to treat such costs as timing differences in determining the provision for income taxes in our consolidated financial statements. Accordingly, we have recorded an income tax expense benefit for such costs in the same periods in which such costs have been incurred and recorded. Subsequent to year-end, the merger was completed; as a result, these costs may no longer be deductible and would be capitalized as part of the merger consideration.

We had a federal net operating loss in 2009 in the amount of approximately $4.1 million with an estimated balance remaining to carry forward to 2012 in the amount of approximately $2.9 million. The net operating loss can be carried forward until the year 2029. The benefit of the net operating loss carried forward is approximately $991,000 and is included in deferred income taxes in the Consolidated Balance Sheet as of December 31, 2011.

As of December 31, 2011, we estimated approximately $384,000 of cumulative federal alternative minimum tax credits that may be carried forward indefinitely as a credit against our regular tax liability.

Investment tax credits resulting from utility plant additions are deferred and amortized. The unamortized investment tax credits are being amortized through the year 2033.

We had a regulatory liability related to income taxes of approximately $868,000 and $890,000 as of December 31, 2011 and 2010, respectively. This represents the estimated future reduction in revenues associated with deferred taxes which were collected at rates higher than the currently enacted rates and the amortization of deferred investment tax credits.

We made a review of our portfolio of uncertain tax positions. In this regard, an uncertain tax position represents our expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. As a result of this review, we determined that we had no material uncertain tax positions. We will use tax planning strategies, if required, and when possible, to avoid the expiration of any future net operating loss and/or tax credits.

We file income tax returns in the U.S. federal jurisdiction, the State of New Hampshire and the Commonwealth of Massachusetts. Our 2008 and 2010 tax years remain subject to examination by the Internal Revenue Service. Our tax year 2009 was audited by the Internal Revenue Service and the year was closed with no changes. Our 2007 through 2010 tax years remain subject to examination by the state jurisdictions.

Our practice is to recognize interest and/or penalties related to income tax matters in "Other, Net" in the Consolidated Statements of Income. We recorded such interest and/or penalties during the years ended December 31, 2011 and 2010 in the amounts of approximately $0 and $0, respectively.

Note 9 – Debt

Long-term debt as of December 31, 2011 and 2010 consisted of the following:

(in thousands)	2011	2010
Unsecured senior notes payable due to an insurance company:		
7.40%, due March 1, 2021	$ 6,000	$ 6,400
Unsecured Business Finance Authority:		
Revenue Bond (2005 Series BC-4), 5.375%, due October 1, 2035	12,140	12,290
Revenue Bond (2005 Series BC-3), 5.00%, due April 1, 2018	7,500	7,500
Revenue Bond (2005 Series A), 4.70%, due October 1, 2035	12,125	12,125
Revenue Bond (Series 2005A), 4.70%, due January 1, 2035	1,810	1,810
Revenue Bond (Series 2005B), 4.60%, due January 1, 2030	2,320	2,325
Revenue Bond (Series 2005C), 4.50%, due January 1, 2025	1,175	1,180
Revenue Bond (Series 2005D), 4.50%, due January 1, 2025	950	1,000
Revenue Bond, 1997, 6.30%, due May 1, 2022	3,200	3,400
Unsecured notes payable to bank, floating-rate, due March 1, 2030	4,223	4,384
Unsecured New Hampshire State Revolving Fund ("SRF") notes [1]	9,378	8,757
Total long-term debt	60,821	61,171
Less current portion	(1,096)	(1,062)
Less original issue discount	(288)	(300)
Total long-term debt, net of current portion	$ 59,437	$ 59,809

[1] SRF notes are due through 2031 at interest rates ranging from 1% to 4.488%. These notes are payable in 120 to 240 consecutive monthly installments of principal and interest. The 1% rate applies to construction projects still in process until the earlier of (i) the date of substantial completion of the improvements, or (ii) various dates specified in the note (such earlier date being the interest rate change date). Commencing on the interest rate change date, the interest rate changes to the lower of (i) the rate as stated in the note or (ii) 80% of the established 11 General Obligations Bond Index published during the specified time period before the interest rate change date.

The aggregate principal payment requirements subsequent to December 31, 2011 are as follows:

(in thousands)	Amount
2012	$ 1,096
2013	1,097
2014	1,108
2015	1,122
2016	1,136
2017 and thereafter	55,262
Total	$ 60,821

Certain covenants (as described below) in Pennichuck Water's and Pennichuck East's loan agreements and in our Bank of America revolving credit loan agreement effectively restrict our ability to upstream dividends from Pennichuck Water and Pennichuck East, as well as pay dividends to our shareholders.

Several of Pennichuck Water's loan agreements contain a covenant that prevents Pennichuck Water from declaring dividends if Pennichuck Water does not maintain a minimum net worth of $4.5 million. As of December 31, 2011 and 2010, Pennichuck Water's net worth was $54.4 million and $53.1 million, respectively.

One of Pennichuck East's loan agreements contains a covenant that prevents Pennichuck East from declaring dividends if Pennichuck East does not maintain a minimum net worth of $1.5 million. As of December 31, 2011 and 2010, Pennichuck East's net worth was $6.5 million and $7.0 million, respectively. Another one of Pennichuck East's loan agreements contains an issuance covenant that requires Pennichuck East to maintain an Earnings Available for Interest ratio of at least 1.5 to 1.0. Pennichuck East was not in compliance with this covenant as of December 31, 2011 and is not permitted to issue any new debt until such time that it passes this covenant.

Our Bank of America revolving credit loan facility contained a covenant that required our Company to maintain a minimum consolidated tangible net worth of $46.4 million ($37.0 million plus equity proceeds subsequent to December 2007). As of December 31, 2011, our consolidated tangible net worth was $56.9 million. This revolving credit facility terminated in accordance with its terms on January 25, 2012 upon consummation of the merger.

Our short-term borrowing activity for the years ended December 31, 2011 and 2010 were:

(in thousands)	2011	2010
Established line at year end	$ 12,000	$ 16,000
Maximum amount outstanding during year	—	645
Average amount outstanding during year	—	16
Amount outstanding at year end	—	—
Weighted average interest rate during year	n/a	3.25%
Interest rate at year end	n/a	n/a

In addition, Pennichuck East has a $1.5 million revolving credit facility with a bank which was established on February 9, 2010. Borrowings under this facility are subject to variable interest rates equal to either a quoted rate at the time of any borrowings or LIBOR rates plus 1.75%, based upon the timeframe for which monies are borrowed, ranging from 30 days to nine months in duration. This facility matured on February 9, 2012, and no borrowings have been made against this facility during its existence.

As of December 31, 2011 and 2010, we had a $4.2 million and $4.4 million, respectively, interest rate swap which qualifies as a derivative. This financial derivative is designated as a cash flow hedge. This financial instrument is used to mitigate interest rate risk associated with our outstanding $4.2 million and $4.4 million loan which has a floating interest rate based on the three-month London Interbank Offered Rate ("LIBOR") plus 1.75% as of December 31, 2011 and 2010, respectively. The combined effect of the LIBOR-based borrowing formula and the swap produces an "all-in fixed borrowing cost" equal to 5.95%. The fair value of the financial derivative, as of December 31, 2011 and 2010, included in our Consolidated Balance Sheets under "Deferred credits and other reserves" as "Other liabilities" was $834,000 and $314,000, respectively. Changes in the fair value of this derivative were deferred in accumulated other comprehensive loss.

Swap settlements are recorded in the income statement with the hedged item as interest expense. During the twelve months ended December 31, 2011 and 2010, $168,000 and $145,000, respectively, was reclassified pre-tax from accumulated other comprehensive loss to interest expense as a result of swap settlements. We expect to reclassify approximately $150,000, pre-tax, from accumulated other comprehensive loss to interest expense as a result of swap settlements, over the next twelve months.

Note 10 – Subsequent Events

Merger with the City of Nashua, New Hampshire

On January 25, 2012, the City completed its acquisition of all of the outstanding voting securities of our Company in a merger transaction pursuant to the Merger Agreement dated as of November 11, 2010 between our Company and the City. The Merger Agreement provided for the purchase of all the outstanding common stock and common stock equivalents of our Company for $29.00 per share, or approximately $138 million in cash, of which approximately $2.2 million related to 238,894 stock options outstanding as of the transaction date.

Sale of land

On January 24, 2012, Southwood sold 38.26 acres of undeveloped land that it owned in Nashua, New Hampshire for $2.2 million resulting in an estimated gain of approximately $1.9 million.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(mark one)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For The Fiscal Year Ended December 31, 2010

OR

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

Commission File Number 0-18552

PENNICHUCK CORPORATION
(Exact name of registrant as specified in its charter)

<u>**New Hampshire**</u>	<u>**02-0177370**</u>
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

25 Manchester Street
Merrimack, New Hampshire 03054
(603) 882-5191
(Address and telephone number of principal executive offices)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $1.00 per share (and Preferred Stock Purchase Rights associated therewith)	The Nasdaq Stock Market LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reports and Financial Statements

Notes to Consolidated Financial Statements

Pennichuck Corporation and Subsidiaries

Management's Report on Internal Control Over Financial Reporting

Management of Pennichuck Corporation (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that

(1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the Board of Directors of the Company; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In assessing the effectiveness of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. As a result of management's assessment and based on the criteria in the framework, management has concluded that, as of December 31, 2010, the Company's internal control over financial reporting was effective.

The Company's independent registered public accounting firm, ParenteBeard LLC, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting. Their report appears on the following page.

/s/ Duane C. Montopoli	/s/ Thomas C. Leonard
Duane C. Montopoli *President and Chief Executive Officer*	Thomas C. Leonard *Senior Vice President and Chief Financial Officer*

March 4, 2011

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Pennichuck Corporation

We have audited Pennichuck Corporation's (the "Company") internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Pennichuck Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Pennichuck Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and the related statements of income, shareholders' equity, comprehensive income, and cash flows of Pennichuck Corporation, as well as the financial statement schedules listed in the accompanying index, and our report dated March 4, 2011 expressed an unqualified opinion.

/s/ ParenteBeard LLC

Reading, Pennsylvania

March 4, 2011

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Pennichuck Corporation

We have audited the accompanying consolidated balance sheets of Pennichuck Corporation (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedules listed in the accompanying index. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pennichuck Corporation as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Pennichuck Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 4, 2011 expressed an unqualified opinion.

/s/ ParenteBeard LLC

Reading, Pennsylvania
March 4, 2011

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	As of December 31, 2010	2009
[redacted]		
Property, Plant and Equipment, net	$ 158,796	$ 154,803
[redacted]		
Cash and cash equivalents	2,383	1,570
[redacted]		
Unbilled revenue	2,389	2,287
[redacted]		
Deferred and refundable income taxes	717	1,636
[redacted]		
Total Current Assets	9,692	9,454
[redacted]		
Deferred land costs	2,497	2,474
[redacted]		
Investment in real estate partnership	114	114
[redacted]		
TOTAL ASSETS	$ 181,601	$ 177,603

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - CONTINUED
(in thousands, except share data)

	As of December 31, 2010	As of December 31, 2009
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' Equity:		
Common stock-$1 par value Authorized-11,500,000 shares in 2010 and 2009 Issued-4,677,105 and 4,652,260 shares, respectively Outstanding-4,675,903 and 4,651,058 shares, respectively	$ 4,677	$ 4,652
Additional paid in capital	41,312	40,619
Retained earnings	10,488	10,086
Accumulated other comprehensive loss	(189)	—
Treasury stock, at cost, 1,202 shares in 2010 and 2009	(138)	(138)
Total Shareholders' Equity	56,150	55,219
Preferred stock, $100 par value, 15,000 shares authorized; and, no par value, 100,000 shares authorized, no shares issued in 2010 and 2009	—	—
Commitments and contingencies (Note 4)		
Long-term Debt, Less Current Portion	59,666	54,279
Current Liabilities:		
Current portion of long-term debt	1,053	5,897
Accounts payable	1,972	1,104
Accrued interest payable	701	721
Accrued wages and payroll withholding	565	269
Accrued liability - retainage	178	480
Other current liabilities	406	391
Total Current Liabilities	4,875	8,862
Deferred Credits and Other Reserves:		
Deferred income taxes	19,180	18,776
Deferred investment tax credits	735	768
Regulatory liability	890	839
Postretirement health benefit obligation	1,708	1,656
Accrued pension liability	4,623	4,031
Other liabilities	1,890	1,549
Total Deferred Credits and Other Reserves	29,026	27,619
Contributions in Aid of Construction	31,884	31,626
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	$ 181,601	$ 177,605

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)

	Years Ended December 31,		
	2010	**2009**	**2008**
Operating Revenues	$ 36,492	$ 32,772	$ 30,979
Operating Expenses:			
Operations and maintenance	18,131	17,108	16,702
Depreciation and amortization	4,237	4,087	4,001
Taxes other than income taxes	4,028	3,585	2,866
Total Operating Expenses	26,396	24,780	23,569
Operating Income	10,096	7,992	7,410
Eminent domain and merger-related costs	(514)	(499)	(217)
Net (loss) earnings from investments accounted for under the equity method	(7)	(4)	3,390
Other expense, net	(44)	(36)	(110)
Allowance for funds used during construction	16	149	453
Interest income	2	1	187
Interest expense	(3,369)	(3,658)	(3,649)
Income Before Provision for Income Taxes	6,180	3,945	7,464
Provision for Income Taxes	2,399	1,563	2,743
Net Income	$ 3,781	$ 2,382	$ 4,721
Earnings Per Common Share:			
Basic	$ 0.81	$ 0.56	$ 1.11
Diluted	$ 0.80	$ 0.55	$ 1.11
Weighted Average Common Shares Outstanding			
Basic	4,660,456	4,274,174	4,240,410
Diluted	4,697,221	4,294,013	4,266,129

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share and per share data)

	Common Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
	Shares	Amount				
[redacted]						
Net income	—	—	—	4,721	—	—
[redacted]						
Stock-based compensation	—	—	65	—	—	—
[redacted]						
Exercise of stock options	19,288	19	104	—	—	—
[redacted]						
Unrealized loss on derivatives, net of tax benefit of $(70)	—	—	—	—	(105)	—
[redacted]						
Balances as of December 31, 2008	4,253,398	4,253	33,092	10,684	(111)	(138)
[redacted]						
Common stock offering	387,000	387	7,149	—	—	—
[redacted]						
Stock-based compensation	—	—	74	—	—	—
[redacted]						
Exercise of stock options	6,069	6	72	—	—	—
[redacted]						
Other comprehensive income:						
[redacted]						
Reclassification adjustment for net loss realized in net income, net of tax benefit of $80	—	—	—	—	120	—
[redacted]						

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY - CONTINUED
(in thousands, except share and per share data)

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
Balances as of December 31, 2009	4,652,260	$ 4,652	$ 40,619	$ 10,086	$ —	$ (138)
Net income	—	—	—	3,781	—	—
Common stock offering	—	—	(6)	—	—	—
Dividend reinvestment plan	6,521	7	136	—	—	—
Stock-based compensation	—	—	239	—	—	—
Common dividends declared—$.725 per share	—	—	—	(3,379)	—	—
Exercises of stock options	18,324	18	326	—	—	—
Tax effect of disqualifying dispositions	—	—	(2)	—	—	—
Other comprehensive income:						
Unrealized loss on derivatives, net of tax benefit of $(183)	—	—	—	—	(276)	—
Reclassification adjustment for net loss realized in net income, net of tax benefit of $58	—	—	—	—	87	—
Balances as of December 31, 2010	4,677,105	$ 4,677	$ 41,312	$ 10,488	$ (189)	$ (138)

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years Ended December 31,		
	2010	**2009**	**2008**
Net income	$ 3,781	$ 2,382	$ 4,721
Other comprehensive (loss) income:			
Unrealized loss on derivatives	(459)	(15)	(175)
Reclassification of net loss realized in net income	145	200	85
Income tax benefit (expense) relating to other comprehensive (loss) income	125	(74)	36
Other comprehensive (loss) income	(189)	111	(54)
Comprehensive income	$ 3,592	$ 2,493	$ 4,667

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2010	2009	2008
Operating Activities:			
Net income	$ 3,781	$ 2,382	$ 4,721
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,459	4,286	4,201
Amortization of original issue discount	12	12	12
Amortization of deferred investment tax credits	(33)	(33)	(33)
Provision for deferred income taxes	2,085	2,012	2,100
Equity component of allowance for funds used during construction	(8)	(65)	(190)
Undistributed loss in real estate partnership	7	4	6
Stock-based compensation expense	239	74	65
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable and unbilled revenue	(191)	732	(421)
(Increase) decrease in refundable income taxes	(643)	586	(972)
(Increase) decrease in materials and supplies	(16)	162	259
Increase in prepaid expenses	(137)	(36)	(223)
Decrease (increase) in deferred charges and other assets	286	1,829	(1,940)
Increase (decrease) in accounts payable	868	(222)	(1,841)
(Decrease) increase in accrued interest payable	(20)	(83)	190
Increase (decrease) in other	775	(1,494)	2,152
Net cash provided by operating activities	11,464	10,146	8,086
Investing Activities:			
Purchase of property, plant and equipment, including debt component of allowance for funds used during construction	(8,507)	(8,168)	(14,688)
Proceeds from sales of property, plant and equipment	50	113	—
Increase in investment in real estate partnership and deferred land costs	(30)	(21)	(23)
Distributions in excess of earnings in investment in real estate partnerships	—	—	414
Net cash used in investing activities	$ (8,487)	$ (8,076)	$ (14,297)

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
(in thousands)

	Years Ended December 31, 2010	2009	2008
Financing Activities:			
Change in line of credit, net	$ —	$ (1,465)	$ 1,465
Payments on long-term debt	(6,302)	(5,309)	(21,685)
Contributions in aid of construction	259	41	118
Proceeds from long-term borrowings	6,833	687	21,780
Debt issuance costs	(54)	(422)	(889)
Proceeds from issuance of common stock and dividend reinvestment plan	479	7,852	281
Dividends paid	(3,379)	(2,980)	(2,798)
Net cash used in financing activities	(2,164)	(1,596)	(1,728)
Increase (decrease) in cash and cash equivalents	813	474	(7,939)
Cash and cash equivalents, beginning of year	1,570	1,096	9,035
Cash and cash equivalents, end of year	$ 2,383	$ 1,570	$ 1,096

Supplemental disclosure on cash flow and non-cash items for the three years ended December 31, 2010, 2009 and 2008 is presented below.

(In thousands)	2010	2009	2008
Cash paid (refunded) during the year for:			
Interest	$ 3,156	$ 3,530	$ 3,248
Income taxes	$ 746	$ (1,084)	$ 1,677
Non-cash items:			
Contributions in aid of construction	$ 680	$ 346	$ 943

The accompanying notes are an integral part of these consolidated financial statements.

Note 1—Description of Business, Acquisition of Company and Summary of Significant Accounting Policies

The terms "we," "our," "our Company," and "us" refer, unless the context suggests otherwise, to Pennichuck Corporation (the "Company") and its subsidiaries, Pennichuck Water Works, Inc. ("Pennichuck Water"), Pennichuck East Utility, Inc. ("Pennichuck East"), Pittsfield Aqueduct Company, Inc. ("Pittsfield Aqueduct"), Pennichuck Water Service Corporation ("Service Corporation") and The Southwood Corporation ("Southwood").

Description of Business:

We are an investor-owned holding company headquartered in Merrimack, New Hampshire. We have five wholly-owned operating subsidiaries: Pennichuck Water, Pennichuck East, and Pittsfield Aqueduct (collectively referred to as our "Company's utility subsidiaries"), which are involved in regulated water supply and distribution to customers in New Hampshire; Service Corporation which conducts non-regulated water-related services; and Southwood which owns several parcels of undeveloped land.

Our Company's regulated water utility subsidiaries are engaged principally in the collection, storage, treatment and distribution of potable water to approximately 33,800 customers throughout the State of New Hampshire. The utility subsidiaries, which are regulated by the New Hampshire Public Utilities Commission (the "NHPUC"), are subject to the provisions of Accounting Standards Codification ("ASC") Topic 980 "*Regulated Operations.*"

Acquisition of Company:

On November 11, 2010, the City of Nashua (the "City") and the Company entered into a Merger Agreement pursuant to which the City will, subject to a number of conditions precedent and contingencies, purchase all of the outstanding common stock and common stock equivalents of Pennichuck Corporation for $29.00 per share, or approximately $138 million, in cash. Pursuant to the terms of the Settlement Agreement that was entered into contemporaneously with the Merger Agreement, the Company and the City have agreed that the eminent domain proceeding between them shall be dismissed in its entirety upon any termination of the Merger Agreement.

The merger is subject to approval by, (i) the holders of not less than two-thirds of our outstanding shares of common stock and, (ii) the NHPUC. The City's obligation to complete the transaction is subject to (a) there being no approval conditions imposed by the NHPUC in approving the merger that would materially adversely affect the City's expected economic benefits from the transaction, and (b) the City's ability to obtain appropriate financing after all other conditions precedent have been met.

The initial scheduling hearing of the NHPUC occurred on February 24, 2011. Final hearings on the matter are scheduled for July 27 through July 29, 2011. We are unable to predict if, or when, the closing will occur but we believe it is not likely to occur prior to the fourth quarter of 2011.

Summary of Significant Accounting Policies:

(a) Basis of Presentation

The accompanying consolidated financial statements include the accounts of our Company and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

(b) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Property, Plant and Equipment

Property, plant and equipment, which includes principally the water utility assets of our Company's utility subsidiaries, is recorded at cost plus an allowance for funds used during construction on major, long-term projects and includes property funded with contributions in aid of construction. The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets which range from 5 to 91 years. The average composite depreciation rate was 2.5% in 2010 and 2009 and 2.6% in 2008. The components of property, plant and equipment as of December 31, 2010 and 2009 were as follows:

(In thousands)	2010	2009	Useful Lives (in years)
Utility Property:			
[redacted]			
Source of supply	49,304	48,172	34-75
[redacted]			
Transmission & distribution, including services, meters and hydrants	109,817	104,664	40-91
[redacted]			
Intangible plant	747	720	20
[redacted]			
Total utility property	201,114	192,515	
[redacted]			
Total property, plant & equipment	201,119	192,616	
[redacted]			
Property, plant and equipment, net	$ 158,796	$ 154,803	

Maintenance, repairs and minor improvements are charged to expense as incurred. Improvements which significantly increase the value of property, plant and equipment are capitalized.

(d) Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash, money market funds and other short-term liquid investments with original maturities of three months or less.

(e) Concentration of Credit Risks

Financial instruments that subject our Company to credit risk consist primarily of cash and accounts receivable. Our cash balances are invested in a money market fund consisting of government-backed securities and a financial institution insured by the Federal Deposit Insurance Corporation ("FDIC"). Occasionally, our cash balance with this financial institution may exceed FDIC limits. Our accounts receivable balances primarily represent amounts due from the residential, commercial and industrial customers of our regulated water utility operations as well as receivables from our Service Corporation customers.

(f) Accounts receivable

Accounts receivable are recorded at the invoiced amounts. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable, and is determined based on historical write-off experience and the aging of account balances. We review the allowance for doubtful accounts quarterly. Account balances are written off against the allowance when it is probable the receivable will not be recovered.

(g) Unbilled Revenue

We read our customer meters on a monthly basis and record revenues based on meter reading results. Information from the last meter reading date is used to estimate the value of unbilled revenues through the end of the accounting period. Estimates of water utility revenues for water delivered to customers but not yet billed are accrued at the end of each accounting period. Actual results could differ from those estimates.

(h) Materials and Supplies

Inventory is stated at the lower of cost, using the average cost method, or market.

(i) Deferred Land Costs

Included in deferred land costs is our Company's original basis in its remaining undeveloped landholdings and any land improvement costs, which are stated at the lower of cost or market. All costs associated with real estate and land projects are capitalized and allocated to the project to which the costs relate. Administrative labor and the related fringe benefit costs attributable to the acquisition, active development and construction of land parcels are capitalized as Deferred Land Costs. No labor and benefits were capitalized for the years ended December 31, 2010 and 2009.

(j) Deferred Charges and Other Assets

Deferred charges include certain regulatory assets and costs of obtaining debt financing. Regulatory assets are amortized over the periods they are recovered through NHPUC-authorized water rates. Deferred financing costs are amortized over the term of the related bonds and notes. Our Company's utility subsidiaries have recorded certain regulatory assets in cases where the NHPUC has permitted, or is expected to permit, recovery of these costs over future periods. Currently, the regulatory assets are being amortized over periods ranging from 4 to 25 years. Deferred charges and other assets as of December 31, 2010 and 2009 consisted of the following:

(in thousands)	2010	2009	Recovery Period (in years)
Regulatory assets:			
[redacted]			
Miscellaneous studies	681	860	4-25
[redacted]			
Unrecovered pension and postretirement benefits expense	3,960	3,867	(1)
[redacted]			
Franchise fees and other	7	25	
[redacted]			
Deferred financing costs	4,042	4,260	
[redacted]			

(1) We expect to recover the deferred pension and other postretirement amounts consistent with the anticipated expense recognition of the pension and other postretirement costs.

(k) Treasury Stock

Treasury stock held by our Company represents shares that were tendered by employees as payment for existing outstanding options. Treasury stock received is recorded at its fair market value when tendered.

(l) Contributions in Aid of Construction ("CIAC")

Under construction contracts with real estate developers and others, our Company's utility subsidiaries may receive non-refundable advances for the cost of installing new water mains. These advances are recorded as CIAC. The utility subsidiaries also record to Plant and CIAC the fair market value of developer installed mains and any excess of fair market value over the cost of community water systems purchased from developers. The CIAC account is amortized over the life of the property.

(m) Revenue

Standard charges for water utility services to customers are recorded as revenue, based upon meter readings and contract service, as services are provided. The majority of our Company's water revenues are based on rates approved by the NHPUC. Estimates of unbilled service revenues are recorded in the period the services are provided. Provision is made in the financial statements for estimated uncollectible accounts.

Non-regulated water management services include contract operations and maintenance, and water testing and billing services to municipalities and small, privately owned community water systems. Contract revenues are billed and recognized on a monthly recurring basis in accordance with agreed-upon contract rates. Revenue from unplanned additional work is based upon time and materials incurred in connection with activities not specifically identified in the contract, or for which work levels exceed contracted amounts.

Revenues from real estate operations, other than undistributed earnings or losses from equity method joint ventures, are recorded upon completion of a sale of real property. Our Company's real estate holdings outside of our regulated utilities are comprised primarily of undeveloped land.

(n) Investment in Joint Venture

Southwood uses the equity method of accounting for its investments in joint ventures in which it does not have a controlling interest. Under this method, Southwood records its proportionate share of earnings or losses which are included under "Net (loss) earnings from investments accounted for under the equity method" with a corresponding increase or decrease in the carrying value of the investment. The investment is reduced as cash distributions are received from the joint ventures. See Note 7, "Equity Investments in Unconsolidated Companies" for further discussion of Southwood's equity investments.

(o) Allowance for Funds Used During Construction **("AFUDC")**

AFUDC represents the estimated debt and equity costs of capital necessary to finance the construction of new regulated facilities. AFUDC consists of an interest component and an equity component. AFUDC is capitalized as a component of property, plant and equipment and has been reported separately in the consolidated statements of income. The AFUDC rate was 7.38% in 2010 and 8% in 2009 and 2008. The total amounts of AFUDC recorded for the years ended December 31, 2010, 2009 and 2008 were as follows:

(in thousands)	2010	2009	2008
Debt (interest) component	$ 8	$ 84	$ 268
Equity component	8	65	190
Total AFUDC	$ 16	$ 149	$ 458

(p) Income Taxes

Income taxes are recorded using the accrual method and the provision for federal and state income taxes is based on income reported in the consolidated financial statements, adjusted for items not recognized for income tax purposes. Provisions for deferred income taxes are recognized for accelerated depreciation and other temporary differences. A valuation allowance is provided to offset any net deferred tax assets if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Investment tax credits previously realized for income tax purposes are amortized for financial statement purposes over the life of the property, giving rise to the credit.

(q) Earnings Per Share

Basic net income per share is computed using the weighted average number of common shares outstanding for a period. Diluted net income per share is computed using the weighted average number of common and dilutive potential common shares outstanding for the period. For the years ended December 31, 2010, 2009 and 2008, dilutive potential common shares consisted of outstanding stock options.

The dilutive effect of outstanding stock options is computed using the treasury stock method. Calculations of the basic and diluted net income per common share and potential common share for the years ended December 31, 2010, 2009 and 2008 were as follows:

(in thousands, except share and per share data)	2010	2009	2008
Basic net income per share	$ 0.81	$ 0.56	$ 1.11
Dilutive effect of unexercised stock options	(0.01)	(0.01)	—
Diluted net income per share	$ 0.80	$ 0.55	$ 1.11
Numerator:			
Net income	$ 3,781	$ 2,382	$ 4,721
Denominator:			
Basic weighted average common shares outstanding	4,660,456	4,274,174	4,240,410
Dilutive effect of unexercised stock options	36,765	19,839	25,719
Diluted weighted average common shares outstanding	4,697,221	4,294,013	4,266,129

The following table lists the number of options to purchase shares of common stock that was not included in the computation of diluted earnings per share for the years ended December 31, 2010, 2009 and 2008 because their effect would have been antidilutive.

	2010	2009	2008
Number of options to purchase shares of common stock excluded from the computation of diluted earnings per share	—	34,200	—

(r) Recently Issued Accounting Standards

We do not expect the adoption of any recently issued accounting pronouncements to have a material impact on our financial condition or results of operations.

(s) Reclassifications

Certain Consolidated Balance Sheet amounts as of December 31, 2009 have been reclassified to conform to the December 31, 2010 Consolidated Balance Sheet presentation. These reclassifications had no effect on total current liabilities and relate to the reclassification of accrued wages and payroll withholding.

Note 2—Postretirement Benefit Plans

Pension Plan and Other Postretirement Benefits

We have a non-contributory, defined benefit pension plan (the "DB Plan") that covers substantially all employees. The benefits are formula-based, giving consideration to both past and future service as well as participant compensation levels. Our funding policy is to contribute annual amounts that meet the requirements for funding under Section 404 of the Internal Revenue Code and the Pension Protection Act. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

We provide postretirement medical benefits for eligible retired employees through one of two plans (collectively referred to as our "OPEB Plans"). For employees who retire on or after the normal retirement age of 65, benefits are provided through a postretirement medical plan (the "Post-65 Plan"). For employees who retire prior to their normal retirement age and who have met certain age and service requirements, benefits are provided through a postemployment medical plan (the "Post-employment Plan"). Future benefits under the Post-65 Plan increase annually based on the actual percentage of wage and salary increases earned from the plan inception date to the normal retirement date. The benefits under the Post-employment Plan allow for the continuity of medical benefits coverage at group rates from the employee's retirement date until the employee becomes eligible for Medicare. The Post-employment Plan is funded from the general assets of our Company.

Upon retirement, if a qualifying employee elects to receive medical benefits under one of our OPEB plans, we pay his or her monthly premium, up to a maximum allowable benefit based on eligibility and years of service. The current maximum monthly benefit is $285. Upon request, the spouse of the covered former employee may also remain on our group medical plan provided that person's entire monthly premium is reimbursed to us.

The following table sets forth the funded status of our DB Plan and our OPEB Plans as of December 31, 2010 and 2009, respectively:

(in thousands)	DB Plan as of December 31, 2010	DB Plan as of December 31, 2009	OPEB Plans as of December 31, 2010	OPEB Plans as of December 31, 2009
Change in benefit obligation:				
Benefit obligation, beginning of year	$ 10,465	$ 9,675	$ 2,348	$ 2,408
Service cost	627	647	116	145
Interest cost	606	560	130	138
Actuarial loss/(gain)	680	(190)	(70)	(302)
Benefits paid, excluding expenses	(227)	(227)	(42)	(41)
Benefit obligation, end of year	$ 12,151	$ 10,465	$ 2,482	$ 2,348
Change in plan assets:				
Fair value of plan assets, beginning of year	$ 6,434	$ 5,074	$ 651	$ 558
Actual return on plan assets, net	807	913	83	93
Employer contribution	514	674	42	41
Benefits paid, excluding expenses	(227)	(227)	(42)	(41)
Fair value of plan assets, end of year	$ 7,528	$ 6,434	$ 734	$ 651
Funded status	$ (4,623)	$ (4,031)	$ (1,748)	$ (1,697)
Amounts recognized in the consolidated balance sheets as of December 31, 2010 and 2009 consisted of:				
Current liability	$ —	$ —	$ (40)	$ (41)
Non-current liability	(4,623)	(4,031)	(1,708)	(1,656)
Total	$ (4,623)	$ (4,031)	$ (1,748)	$ (1,697)

Changes in plan assets and benefit obligations recognized in regulatory assets, for the years ended December 31, 2010 and 2009, were as follows:

(in thousands)	DB Plan as of December 31, 2010	DB Plan as of December 31, 2009	OPEB Plans as of December 31, 2010	OPEB Plans as of December 31, 2009
Regulatory asset balance, beginning of year	$ 3,799	$ 4,724	$ 68	$ 447
Net actuarial loss/(gain) incurred during the year	367	(701)	(106)	(354)
Amortization of prior service cost	—	—	(22)	(22)
Recognized net actuarial losses	(155)	(224)	9	(3)
Regulatory asset/(liability) balance, end of year	$ 4,011	$ 3,799	$ (51)	$ 68

Amounts recognized in regulatory assets for the DB and OPEB Plans that have not yet been recognized as components of net periodic benefit cost of the following at December 31, 2010 and 2009, respectively:

	DB Plan		OPEB Plans	
	as of December 31,		as of December 31,	
(in thousands)	2010	2009	2010	2009
Net actuarial (gain)/loss	$ 4,011	$ 3,799	$ (251)	$ (154)
Prior service cost	—	—	200	222
Regulatory asset	$ 4,011	$ 3,799	(51)	68

The key assumptions used to value benefit obligations and calculate net periodic benefit cost for our DB and OPEB Plans include the following:

	2010	2009	2008
Discount rate for net periodic benefit cost, beginning of year	6.00%	5.75%	5.75%
Discount rate for benefit obligations, end of year [(a)]	5.50%	6.00%	5.75%
Expected return on plan assets for the year (net of investment expenses)	7.50%	7.50%	7.50%
Rate of compensation increase, beginning of year	3.00%	3.00%	3.00%
Healthcare cost trend rate [(b)]	11.00%	11.50%	12.00%

(a) an increase or decrease in the discount rate of 0.5%, would result in a change in the funded status as of December 31, 2010, for the DB Plan and the OPEB Plan's, of approximately $1.0 million and $200,000, respectively

(b) applicable only to the OPEB Plans

The components of net DB Plan costs and OPEB Plan costs were as follows:

	DB Plan			OPEB Plans		
	Year Ended December 31,			Year Ended December 31,		
(in thousands)	2010	2009	2008	2010	2009	2008
Service cost, benefits earned during the period	$ 627	$ 647	$ 625	$ 116	$ 145	$ 129
Interest cost on projected benefit obligation	606	560	497	n/a	n/a	n/a
Interest cost on accumulated postretirement and postemployment benefit obligation	n/a	n/a	n/a	130	138	124
Expected return on plan assets	(493)	(401)	(464)	(49)	(42)	(44)
Amortization of prior service cost	—	—	1	22	22	22
Recognized net actuarial loss (gain)	155	224	123	(9)	3	2
Net periodic benefit cost	$ 895	$ 1,030	$ 782	$ 210	$ 266	$ 233

The estimated net actuarial loss and prior service cost for our DB Plan that will be amortized in 2011 from the regulatory assets into net periodic benefit costs are $176,000 and $0, respectively.

The estimated net actuarial gain and prior service cost for our OPEB Plans that will be amortized in 2011 from the regulatory assets into net periodic benefit costs is $13,000 and $22,000, respectively.

The projected benefit obligation, the accumulated benefit obligation and the fair value of plan assets for the DB Plan as of December 31, 2010 and 2009 were as follows:

(in thousands)	2010	2009
Projected benefit obligation	$ 12,151	$ 10,465
Accumulated benefit obligation	10,728	8,953
Fair value of plan assets	7,528	6,434

In establishing its investment policy, our Company has considered the fact that the DB Plan is a major retirement vehicle for its employees and the basic goal underlying the establishment of the policy is to provide that the assets of the Plan are invested in accordance with the asset allocation range targets to achieve our expected return on Plan assets. Our Company's investment strategy applies to its OPEB Plans as well as the DB Plan. Our expected long-term rate of return on DB Plan and OPEB Plan assets is based on the Plans' expected asset allocation, expected returns on various classes of Plan assets as well as historical returns.

A one percent change in the assumed health care cost trend rate would not have had a material effect on the Post-65 Plan cost or the accumulated Post-65 Plan benefit obligation in 2010.

The assets of our Post-65 Plan are held in two separate Voluntary Employee Beneficiary Association ("VEBA") trusts. We maintain our VEBA plan assets in directed trust accounts at a commercial bank.

The investment strategy for our DB Plan and our OPEB Plans utilizes several different asset classes with varying risk/return characteristics. The following table indicates the asset allocation percentages of the fair value of the DB Plan and OPEB Plans' assets for each major type of plan asset as of December 31, 2010 and 2009, as well as the targeted allocation range:

	DB Plan			OPEB Plans		
	2010	2009	Asset Allocation Range	2010	2009	Asset Allocation Range
Equities	75%	73%	30% – 90%	58%	57%	30% – 90%
Fixed income	25%	27%	25% – 65%	42%	43%	10% – 40%
Cash and cash equivalents	0%	0%	0% – 15%	0%	0%	0% – 15%
Total	100%	100%		100%	100%	

The DB Plan held 21,000 shares of Pennichuck Corporation common stock ("PNNW") as of December 31, 2010 and 2009, which is included in Equities in the table above. The fair value of this stock as of December 31, 2010 and 2009 was $575,000 and $444,000, respectively. Pennichuck Corporation stock held in the Plan represents 7.6% and 6.9% of the total DB Plan assets as of December 31, 2010 and 2009, respectively.

Management uses its best judgment in estimating the fair value of its financial instruments. However, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts that we could have realized in a sales transaction for these instruments. The estimated fair value amounts have been measured as of year end and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates.

Investments in PNNW common stock and mutual funds are stated at fair value by reference to quoted market prices. Money market funds are valued utilizing the Net Asset Value per unit based on the fair value of the underlying assets as determined by the directed trustee.

The DB Plan also holds assets under an immediate participation guarantee group annuity contract with a Life Insurance Company. The assets under the contract are invested in pooled separate accounts and in a general investment account. The pooled separate accounts are valued based on net asset value per unit of participation in the fund and have no unfunded commitments or significant redemption restrictions at year-end. The value of these units is determined by the trustee based on the current market values of the underlying assets of the pooled separate accounts. Therefore, the value of the pooled separate accounts is deemed to be at estimated fair value. A detailed description of each category of underlying assets within the pooled separate accounts is as follows as of December 31, 2010 and 2009:

- Growth funds accounted for $2.3 million, or 46%, of the fair value of the pooled separate accounts at December 31, 2010 and $2.0 million, or 48%, of the fair value of the pooled separate accounts at December 31, 2009. Growth funds objectives are for capital appreciation and current income. These investment accounts invest in mutual funds which have a readily available market price.

- Fixed income funds accounted for $811,000, or 16%, of the fair value of the pooled separate accounts at December 31, 2010 and $613,000, or 14%, of the fair value of the pooled separate accounts at December 31, 2009. Fixed income funds objectives are for long-term rates of return consistent with preserving capital. These investment accounts invest in mutual funds which have a readily available market price. One of the funds in this category, SSGA Pass Bond H, invests in bond funds.
- Value funds accounted for $2.0 million, or 38%, of the fair value of the pooled separate accounts at December 31, 2010 and $1.6 million, or 38%, of the fair value of the pooled separate accounts at December 31, 2009. Value funds objectives are for total return and capital appreciation. These investment accounts invest in mutual funds which have a readily available market price.

The general investment account is not actively traded and significant other observable inputs are not available. The fair value of the general investment account is calculated by discounting the related cash flows based on current yields of similar instruments with comparable durations.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan's management believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain investments could result in a different fair value measurement at the reporting date.

We use a fair value hierarchy which prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The fair value of DB Plan and OPEB Plan assets by levels within the fair value hierarchy used as of December 31, 2010 was as follows:

(in thousands)	Totals	Level 1	Level 2	Level 3
DB Plan:				
Equities:				
Pooled separate accounts	$ 5,084	$ —	$ 5,084	$ —
PNNW common stock	575	575	—	—
Fixed Income:				
General investment account	1,850	—	—	1,850
Cash and cash equivalents:				
Money market funds	19	—	19	—
Total Pension Plan	$ 7,528	$ 575	$ 6,103	$ 1,850

OPEB Plans:				
Mutual funds:				
Balanced/hybrid funds	$ 162	$ 162	$ —	$ —
U.S. equity securities funds	177	177	—	—
International equity funds	85	85	—	—
Fixed income funds	309	309	—	—
Cash and cash equivalents:				
Money market funds	1	—	1	—
Total Postretirement Plans	$ 734	$ 733	$ 1	$ —
Totals	$ 8,262	$ 1,308	$ 5,104	$ 1,850

The fair value of DB Plan and OPEB Plan assets by levels within the fair value hierarchy used as of December 31, 2009 was as follows:

(in thousands)	Totals	Level 1	Level 2	Level 3
DB Plan:				
Equities:				
Pooled separate accounts	$ 4,254	$ —	$ 4,254	$ —
PNNW common stock	444	444	—	—
Fixed Income:				
General investment account	1,733	—	—	1,733
Cash and cash equivalents:				
Money market funds	3	—	3	—
Total Pension Plan	$ 6,434	$ 444	$ 4,257	$ 1,733
OPEB Plans:				
Mutual funds:				
Balanced/hybrid funds	$ 143	$ 143	$ —	$ —
U.S. equity securities funds	152	152	—	—
International equity funds	75	75	—	—
Fixed income funds	281	281	—	—
Cash and cash equivalents:				
Money market funds	—	—	—	—
Total Postretirement Plans	$ 651	$ 651	$ —	$ —
Totals	$ 7,085	$ 1,095	$ 4,257	$ 1,733

Level 1: Based on quoted prices in active markets for identical assets.
Level 2: Based on significant observable inputs.
Level 3: Based on significant unobservable inputs.

The following table presents a year-end reconciliation of DB Plan assets measured and recorded at fair value on a recurring basis, using significant unobservable inputs (level 3):

(in thousands)	2010	2009
Balance at December 31, 2009	$ 1,733	$ 1,849
Plan transfers	161	58
Benefits paid	(227)	(227)
Return on plan assets (net of investment expenses)	183	53
Balance at December 31, 2010	$ 1,850	$ 1,733

In order to satisfy the minimum funding requirements of the Employee Retirement Income Security Act of 1974, applicable to defined benefit pension plans, we anticipate that we will contribute approximately $1.1 million to the Plan in 2011.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

(in thousands)	DB Plan	OPEB Plans
2011	$ 361	$ 67
2012	387	68
2013	416	80
2014	479	87
2015	536	93
2016-2020	4,095	683
Total	$ 6,274	$ 1,078

Because we are subject to regulation in the state in which we operate, we are required to maintain our accounts in accordance with the regulatory authority's rules and regulations. In those instances, we follow the guidance of ASC 980 ("Regulated Operations"). Based on prior regulatory practice, we recorded underfunded DB Plan and OPEB Plan obligations as a regulatory asset and we expect to recover those costs in rates charged to customers.

Defined Contribution Plan

In addition to the defined benefit plan, we have a defined contribution plan covering substantially all employees. Under this plan, our Company matches 100% of the first 3% of each participating employee's salary contributed to the plan. The matching employer's contributions, recorded as operating expenses, were approximately $178,000, $184,000 and $172,000 for 2010, 2009 and 2008, respectively.

Note 3—Stock-based Compensation Plans

Share-based payments to employees from grants of stock options are recognized as compensation expense in the consolidated financial statements based on their fair value on the grant date. For purposes of calculating the fair value of each stock grant as of the date of grant, our Company uses the Black Scholes Option Pricing model.

The impact of stock-based compensation on the consolidated statements of income for the years ended December 31, 2010, 2009 and 2008 was as follows:

	Year Ended December 31,		
(in thousands)	2010	2009	2008
Stock-based compensation	$ 239	$ 74	$ 65
Income taxes	(96)	(30)	(26)
Stock-based compensation, net of tax	$ 143	$ 44	$ 39

The total compensation cost related to non-vested stock option awards was approximately $99,000, net of tax as of December 31, 2010. These costs are expected to be recognized during 2011 through 2013.

Our Company has periodically granted its officers and key employees incentive and non-qualified stock options on a discretionary basis pursuant to two stock option plans, the 1995 Stock Option Plan (the "1995 Plan") and the Amended and Restated 2000 Stock Option Plan. On May 6, 2009, our shareholders approved an amendment to and restatement of the Amended and Restated 2000 Stock Option Plan to also allow for the issuance of restricted stock, but did so without increasing the number of shares available for awards under the Plan. As amended and restated, the plan has been renamed the 2009 Equity Incentive Plan (the "2009 Plan").

The 1995 Plan permits the granting of both incentive stock options and non-qualified stock options to employees at a price per share equivalent to the market value at the date of the grant. Options become exercisable immediately following the grant and expire ten years from the date of grant. As of December 31, 2010 and 2009, no further shares were available for grant under the 1995 Plan.

The 2009 Plan provides for the granting of incentive stock options to employees and non-qualified stock options to employees and directors at a price per share equivalent to the market value at the date of the grant. Option grants have varying vesting schedules and expire ten years from the date of grant. The 2009 Plan also authorizes the granting of restricted stock awards to employees and directors. There are 500,000 shares of common stock subject to issuance under the 2009 Plan. As of December 31, 2010 and 2009, 111,934 and 183,834 shares, respectively, were available for future grant under the 2009 Plan. During the term of the Merger Agreement, we are prohibited from issuing any new incentive stock options or non-qualified stock options under the 2009 Plan.

The following table summarizes the activity under the stock option plans for the three-year period ended December 31, 2010.

	Number of Shares		Price per Share		Average Price per Share
[redacted]					
Granted	34,200		22.22-22.51		22.36
[redacted]					
Canceled	(333)		7.13		7.13
[redacted]					
Granted	38,000		17.64		17.64
[redacted]					
Canceled	(804)		11.81		11.81
[redacted]					
Granted	71,900		20.11-21.14		20.54
[redacted]					
Canceled	—		—		—
[redacted]					
Exercisable as of December 31, 2008	167,311	$	11.81-21.24	$	19.37
[redacted]					
Exercisable as of December 31, 2010	189,778	$	15.29-22.51	$	19.92

The following table summarizes information about options outstanding and exercisable as of December 31, 2010.

Options Outstanding				Options Exercisable	
Exercise Price	Number Outstanding As of 12/31/10	Remaining Contractual Life (in years)	Weighted Average Exercise Price Per Share	Number Exercisable As of 12/31/10	Weighted Average Exercise Price Per Share
$ 15.29	6,399	.03	$ 15.29	6,399	$ 15.29
20.25	13,467	1.07	20.25	13,467	20.25
20.14	20,935	2.76	20.14	20,935	20.14
21.24	21,468	3.07	21.24	21,468	21.24
19.67	19,309	4.08	19.67	19,309	19.67
19.51	17,400	4.94	19.51	17,400	19.51
19.00	40,000	5.64	19.00	40,000	19.00
22.22	6,000	7.52	22.22	—	22.22
22.51	16,200	7.65	22.51	10,800	22.51
17.64	35,331	8.08	17.64	10,000	17.64
20.11	41,900	9.08	20.11	—	20.11
21.14	30,000	9.24	21.14	30,000	21.14
	268,409			189,778	

The weighted average fair value per share of options granted during 2010, 2009 and 2008 was $3.69, $2.75 and $3.63, respectively. The fair value of each option grant was estimated on the date of grant using the following assumptions:

	Year Ended December 31,		
	2010	2009	2008
Risk-free interest rate	2.58 - 2.81%	1.75%	2.77%
Expected dividend yield	3.41 - 3.48%	3.97%	2.95%
Expected lives	5.41 - 5.45 years	7 years	10 years
Expected volatility	25.37 - 25.41%	25.18%	18.10%

Note 4—Commitments and Contingencies

Merger Agreement with the City of Nashua and Prior Eminent Domain Proceedings

In 2002, the City of Nashua (the "City") began an effort to acquire all or a significant portion of Pennichuck Water's assets through an eminent domain proceeding under New Hampshire Revised Statutes Annotated Chapter 38, as well as the assets of the Company's Pennichuck East and Pittsfield Aqueduct utility subsidiaries. As discussed in Note 1, on November 11, 2010, we entered into a definitive merger agreement (the "Merger Agreement") with the City pursuant to which the City will, subject to a number of conditions precedent, purchase all the outstanding common stock and common stock equivalents of Pennichuck Corporation for $29.00 per share. Pursuant to the terms of the Settlement Agreement, entered into contemporaneously with the Merger Agreement, the Company and the City have agreed that this transaction constitutes full settlement of their eminent domain dispute.

History of the City of Nashua's Eminent Domain Proceedings and the Merger Agreement

We entered into an agreement in April 2002 to be acquired by merger with Aqua America, Inc. (formerly Philadelphia Suburban Corporation). The merger was subject to several conditions, including approval by our shareholders and approval by the NHPUC. In February 2003, before we submitted the merger to our shareholders, we and Aqua America agreed to abandon the proposed transaction because of actions taken by the City to acquire our assets by eminent domain.

The City's Mayor at that time stated his opposition to our proposed merger with Aqua America after we announced it. In November 2002, the City of Nashua Board of Aldermen adopted a formal resolution to hold a City-wide referendum to approve the initiation of an eminent domain proceeding or other acquisition of all or a portion of Pennichuck Water's system serving the residents of the City and others. In January 2003, the City of Nashua residents approved the referendum.

In March 2004, as part of the eminent domain process, the City filed a petition with the NHPUC seeking approval to acquire all of our water utility assets, whether or not related to our Nashua service area. The NHPUC ruled in January 2005 that the City could not use the eminent domain procedure to acquire any of the assets of Pennichuck East or Pittsfield Aqueduct, and that, with regard to the assets of Pennichuck Water, the question of which assets, if any, could be taken by the City was dependent on a determination to be made by the NHPUC after a hearing as to what was in the public interest.

The NHPUC conducted a hearing on the merits of the City's proposed eminent domain taking of the assets of Pennichuck Water, which hearing was completed on September 26, 2007. On July 25, 2008, the NHPUC issued its order in this matter, ruling that a taking of the assets of Pennichuck Water is in the public interest provided certain conditions are met, and provided that the City pay to Pennichuck Water $203 million for such assets determined as of December 31, 2008. The conditions included a requirement that the City pay an additional $40 million into a mitigation fund to protect the interests of the customers of Pennichuck East and Pittsfield Aqueduct.

Subsequently, both the Company and the City filed appeals with the Supreme Court. On March 25, 2010, the Court issued its decision, unanimously affirming the NHPUC's ruling in its entirety. Following the Court's decision, neither party filed a request for rehearing with the Court and, accordingly, on April 7, 2010, the Court issued its mandate to the NHPUC and its July 25, 2008 order became effective.

Separately, under RSA 38:13, the City has 90 days from the date of the final determination of the price to be paid for the assets of Pennichuck Water to decide whether or not to issue the debt necessary to fund the taking of the Pennichuck Water assets upon the terms set forth in the NHPUC's July 25, 2008 order. On June 30, 2010, our Company and the City jointly filed a motion with the NHPUC requesting a scheduling order for the purpose of establishing a process by which the eminent domain valuation of the plant and property of Pennichuck Water would be updated and to make a final determination of the price to be paid for such property and equipment. The Company and the City agreed that the final valuation should be determined by adjusting the preliminary $203 million purchase price set forth in the NHPUC's Order by an amount equal to the additions and retirements and accumulated depreciation reserves with respect to assets placed in service, or retired from service, after December 31, 2008, consistent with the asset updating approach used by the NHPUC. In the joint motion, the Company and the City indicated that they remained interested in reaching a negotiated resolution of the proceeding, which could include a possible sale of the stock of the Company to the City and they took the position that in the case of a the negotiated transaction submitted to the NHPUC the price agreed to would constitute the final determination of price. A final determination of the price triggers a 90 day statutory period, established pursuant to RSA 38:13, for the City to decide whether or not to issue the debt necessary to fund the taking of the Pennichuck Water assets.

On November 11, 2010, the City and the Company signed the Merger Agreement pursuant to which the City will, subject to a number of conditions precedent and contingencies, purchase all of the outstanding common stock and common stock equivalents of the Company for $29.00 per share, or approximately $138 million, in cash. On January, 11, 2011, the City's Board of Aldermen voted 14 – 1 to approve and ratify the price and the Merger Agreement and authorize the related financing.

The merger is subject to approval by the holders of not less than two-thirds of our outstanding shares of common stock and also regulatory approval by the NHPUC. The City's obligation to complete the transaction is subject to there being no burdensome approval conditions imposed by the NHPUC that would materially adversely affect the City's expected economic benefits from the transaction as well the City's ability to obtain appropriate financing after all the conditions precedent (including those specified above and other customary closing conditions) have been met.

The initial scheduling hearing of the NHPUC occurred on February 24, 2011. Final hearings on the matter are scheduled for July 27 through July 29, 2011. We are unable to predict if, or when, the closing will occur but we believe it is not likely to occur prior to the fourth quarter of 2011.

Other Eminent Domain Proceedings

The Town of Pittsfield, New Hampshire voted at its town meeting in 2003 to acquire the assets of our Company's Pittsfield Aqueduct subsidiary by eminent domain. In April 2003, the Town notified our Company in writing of the Town's desire to acquire the assets. Our Company responded that it did not wish to sell the assets. Thereafter, no further action was taken by the Town until March 2005, when the Town voted to appropriate $60,000 to the eminent domain process. On March 22, 2005, our Company received a letter from the Town reiterating the Town's desire to acquire the assets of our Company's Pittsfield Aqueduct subsidiary, and by letter dated May 10, 2005, our Company responded that it did not wish to sell them. Our Company does not have a basis to evaluate whether the Town will actively pursue the acquisition of our Company's Pittsfield Aqueduct assets by eminent domain, but since the date of the Town's letter to our Company the Town has not taken any additional steps required under New Hampshire RSA Chapter 38 to pursue eminent domain.

The Town of Bedford, New Hampshire voted at its town meeting in March 2005 to take by eminent domain our assets within Bedford for purposes of establishing a water utility, and, by letter dated April 4, 2005, inquired whether our Company, and any relevant wholly-owned subsidiary of our Company, was willing to sell its assets to Bedford. We responded by informing the Town that we did not wish to sell those assets located in Bedford that are owned by any of our subsidiaries. We have not received a response to our letter, and since the date of the Town's letter to us, the Town has taken no further legal steps required to pursue eminent domain under New Hampshire RSA Chapter 38. During the NHPUC hearing regarding the proposed eminent domain taking by the City of Nashua, the witness for the Town of Bedford testified that the Town's interest in a possible taking of assets of our Company related to a situation in which the City might acquire less than all of our Company's assets, leaving the system in Bedford as part of a significantly smaller utility.

Our Company cannot predict the ultimate outcome of these matters.

Operating Leases

We lease our corporate office space as well as certain office equipment under operating lease agreements. Total rent expense was approximately $346,000, $327,000 and $258,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

Our remaining lease commitments for our corporate office space and leased equipment as of December 31, 2010 were as follows:

(in thousands)	Amount
[redacted]	
2012	303
[redacted]	
2014	—
[redacted]	
Total	$ 793

Note 5—Business Segment Reporting

Our operating activities are currently grouped into the following two primary business segments.

Regulated water utility operations—Includes the collection, treatment and distribution of potable water for domestic, industrial, commercial and fire protection service in the City of Nashua and 29 other communities throughout New Hampshire. Our regulated water utility subsidiaries consist of Pennichuck Water, Pennichuck East and Pittsfield Aqueduct.

Water management services—Includes the contract operations and maintenance activities of Service Corporation.

In 2009, we determined that our real estate operations conducted through Southwood should no longer be considered a reportable business segment due to the sale and dissolution of substantially all of Southwood's joint ventures and the expectation of limited real estate activities for the foreseeable future. Beginning in 2009, the line titled "Other", which previously included primarily parent company activity, including eminent domain-related expenses, now also includes the activities of Southwood. Prior to 2009, Southwood's activities were considered a reportable segment and were reported on the line titled "Real estate operations". The line titled "Other" is not a reportable segment and is shown only to reconcile to the total amounts shown in our Consolidated Financial Statements.

The following table presents information about our primary business segments as of and for the years ended December 31:

(in thousands)	2010	2009	2008
Operating revenues:			
Regulated water utility operations	$ 34,022	$ 29,993	$ 28,303
Water management services	2,461	2,770	2,647
Real estate operations	N/A	N/A	20
Other	9	9	9
Total operating revenues	$ 36,492	$ 32,772	$ 30,979
Equity method net (loss) earnings:			
Regulated water utility operations	$ —	$ —	$ —
Water management services	—	—	—
Real estate operations	N/A	N/A	3,390
Other	(7)	(4)	—
Total equity method net (loss) earnings	$ (7)	$ (4)	$ 3,390
Interest income:			
Regulated water utility operations	$ 2	$ —	$ 16
Water management services	—	—	—
Real estate operations	N/A	N/A	—
Other	—	1	171
Total interest income	$ 2	$ 1	$ 187

(in thousands)		2010		2009		2008
Interest expense:						
Regulated water utility operations	$	3,361	$	3,578	$	3,617
Water management services		—		—		—
Real estate operations		N/A		N/A		—
Other		8		80		32
Total interest expense	$	3,369	$	3,658	$	3,649
Provision (benefit) for income taxes:						
Regulated water utility operations	$	2,517	$	1,665	$	1,597
Water management services		82		133		148
Real estate operations		N/A		N/A		1,141
Other		(200)		(235)		(143)
Total provision for income taxes	$	2,399	$	1,563	$	2,743
Net income (loss):						
Regulated water utility operations	$	3,987	$	2,484	$	2,521
Water management services		125		191		224
Real estate operations		N/A		N/A		2,219
Other		(331)		(293)		(243)
Total net income	$	3,781	$	2,382	$	4,721
Allocated parent expenses:						
Regulated water utility operations	$	919	$	926	$	941
Water management services		33		42		43
Real estate operations		N/A		N/A		8
Other		7		7		—
Total allocated parent expenses	$	959	$	975	$	992

The operating revenues within each business segment are sales to unaffiliated customers. Expenses allocated by the parent company to its subsidiaries are calculated based primarily on a ratio of each subsidiary's revenues, assets, customer base and net plant to the consolidated amounts for each metric.

All of the employees of the consolidated group are employees of Pennichuck Water, which in turn allocates a portion of its labor and other direct expenses and general and administrative expenses to our Company's other subsidiaries. This intercompany allocation reflects Pennichuck Water's estimated costs that are associated with conducting the activities within our Company's subsidiaries. The allocation of Pennichuck Water costs is based on, among other things, time records for direct labor, customer service activity and accounting transaction activity.

Within the regulated water utility business segment, one customer accounted for approximately 8.0%, 8.5% and 8.4% of water utility revenues in 2010, 2009 and 2008, respectively. During 2010, 2009 and 2008, the regulated water utility segment recorded approximately $2.7 million, $2.6 million and $2.4 million, respectively, in water revenues which were derived from fire protection and other billings to this customer. As of December 31, 2010, 2009 and 2008, this customer accounted for approximately 9.9%, 8.7% and 8.3% of total accounts receivable, respectively.

The following table presents information about our two primary business segments as of and for the years ended December 31:

(in thousands)	2010	2009	2008
Total assets:			
Regulated water utility operations	$ 176,098	$ 171,073	$ 165,280
Water management services	127	319	159
Real estate operations	N/A	N/A	2,394
Other	5,376	6,213	7,121
Total assets	$ 181,601	$ 177,605	$ 174,954
Purchases of property, plant and equipment:			
Regulated water utility operations	$ 8,499	$ 8,084	$ 14,420
Water management services	—	—	5
Real estate operations	N/A	N/A	—
Other	—	—	—
Total purchases of property, plant and equipment	$ 8,499	$ 8,084	$ 14,425
Depreciation and amortization expense:			
Regulated water utility operations	$ 4,446	$ 4,262	$ 4,171
Water management services	5	9	12
Real estate operations	N/A	N/A	—
Other	8	15	18
Total depreciation and amortization expense	$ 4,459	$ 4,286	$ 4,201

Note 6—Financial Measurement and Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of its financial instruments. However, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts that we could have realized in a sales transaction for these instruments. The estimated fair value amounts have been measured as of their respective year ends and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates.

We use a fair value hierarchy which prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

Level 1: Based on quoted prices in active markets for identical assets.

Level 2: Based on significant observable inputs.

Level 3: Based on significant unobservable inputs.

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For assets and liabilities measured at fair value on a recurring basis, the fair value measurement by levels within the fair value hierarchy used as of December 31, 2010 and 2009 were as follows:

(in thousands)	December 31, 2010	Level 1	Level 2	Level 3
[redacted]				

(in thousands)	December 31, 2009	Level 1	Level 2	Level 3
[redacted]				

The carrying value of certain financial instruments included in the accompanying consolidated balance sheet, along with the related fair value, as of December 31, 2010 and 2009 was as follows:

	2010		2009	
(in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
[redacted]				
Long-term debt	$ (60,719)	$ (55,349)	$ (60,176)	$ (55,794)
[redacted]				

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The fair value for long-term debt shown above does not purport to represent the amounts at which those debt obligations would be settled. The fair market value of our interest rate swap, which was entered into in the first quarter of 2010, represents the estimated cost to terminate this agreement as of December 31, 2010 based upon the then-current interest rates and the related credit risk.

The carrying values of our cash and cash equivalents, line of credit and accounts receivable approximate their fair values because of their short maturity dates.

Note 7—Equity Investments in Unconsolidated Companies

As of December 31, 2010 and 2009, Southwood held a 50 percent ownership interest in a limited liability company known as HECOP IV. HECOP IV, whose assets and liabilities are not included in the accompanying consolidated balance sheets, owns approximately nine acres of undeveloped land in Merrimack, New Hampshire. The remaining ownership interest in HECOP IV is held by John P. Stabile II ("Stabile"), principal owner of H.J. Stabile & Son, Inc. The short-term cash needs of HECOP IV are expected to be funded by its partners on an on-going basis and are not expected to be significant.

Until December 2008, Southwood also held a 50 percent ownership interest in three other limited liability companies known as HECOP I, HECOP II and HECOP III. All, or most, of the remaining ownership interest in each of these companies was held by Stabile. "Net (loss) earnings from investments accounted for under the equity method" for the year ended December 31, 2008 included a non-recurring, non-operating, after state tax gain of approximately $3.4 million ($2.3 million after federal income taxes) from the January 2008 sale of the three commercial real estate properties that were owned by HECOP's I - III. The land and office buildings sold comprised substantially all of the assets of HECOP's I - III. Consequently, these three entities were dissolved in December 2008. For the year ended December 31, 2008, cash distributions received from HECOP's I - III totaled $3.8 million.

Southwood uses the equity method of accounting for its investments in joint ventures and accordingly, its investment is adjusted for its share of earnings or losses and for any distributions or dividends received from the joint ventures. For the years ended December 31, 2010, 2009 and 2008, Southwood's share of earnings or losses from its investments in joint ventures was approximately $(7,000), $(4,000) and $3.4 million, respectively. Southwood's share of earnings or losses are included under "Net (loss) earnings from investments accounted for under the equity method" in the accompanying consolidated statements of income.

Note 8—Income Taxes

The components of the federal and state income tax provision as of December 31, 2010, 2009 and 2008 were as follows:

(in thousands)	2010	2009	2008
[redacted]			
State	495	406	349
[redacted]			
Total	$ 2,399	$ 1,563	$ 2,743
[redacted]			
Current	$ 661	$ 161	$ 698
[redacted]			
Total	$ 2,399	$ 1,563	$ 2,743

The following is a reconciliation between the statutory federal income tax rate and the effective income tax rate for 2010, 2009 and 2008:

	2010	2009	2008
[redacted]			
State tax rate, net of federal benefit	5.3 %	6.8 %	3.1 %
[redacted]			
Amortization of investment tax credits	(0.6)%	(0.9)%	(0.5)%
[redacted]			
Effective tax rate	38.8 %	39.6 %	36.7 %

The State of New Hampshire income tax liability on income attributable to our Company's joint ventures is imposed at the limited liability company level, and not at the Pennichuck Corporation level (in contrast to federal income taxes). Therefore, State of New Hampshire income taxes in the amount of approximately $-0-, $-0- and $217,000 were reflected in 2010, 2009 and 2008, respectively, under "Net (loss) earnings from investments accounted for under the equity method" in the accompanying consolidated statements of income.

The temporary items that give rise to the net deferred tax liability as of December 31, 2010 and 2009 were as follows:

(in thousands)	2010	2009
Liabilities:		
Property-related, net	$ 22,021	$ 19,733
Pension deferred asset	1,589	1,605
Other	1,116	878
Total liabilities	24,726	22,116
Assets:		
Pension accrued liability	1,831	1,597
Federal net operating loss carryforward	862	1,555
Alternative minimum tax credit	374	374
NH Business Enterprise Tax credits	161	360
Other	2,318	1,009
Total assets	5,546	4,895
Net deferred income tax liability	19,180	17,221
Less current deferred tax asset	—	1,555
Net non-current deferred tax liability	$ 19,180	$ 18,776

We had a federal net operating loss in 2009 in the amount of approximately $4.1 million. The net operating loss, which can be carried forward until the year 2029, is expected to be partially utilized in 2010 in the amount of $1.6 million with the balance of $2.5 million carried forward to 2011. The benefit of the net operating loss carried forward is approximately $862,000 and is included in Deferred Income Taxes in the Consolidated Balance Sheet as of December 31, 2010.

As of December 31, 2010, we estimated approximately $374,000 of cumulative federal alternative minimum tax credits that may be carried forward indefinitely as a credit against our regular tax liability.

As of December 31, 2010, we had New Hampshire Business Enterprise Tax ("NHBET") credits as follows:

Year of Origination	Original Amount	Remaining Amount	Year of Expiration
(in thousands)			
2009	$ 104	$ 54	2014
2010	107	107	2015
Total	$ 211	$ 161	

We anticipate that we will fully utilize our remaining NHBET credits before they expire and, therefore, we have not recorded a valuation allowance.

Investment tax credits resulting from utility plant additions are deferred and amortized. The unamortized investment tax credits are being amortized through the year 2033.

We had a regulatory liability related to income taxes of approximately $890,000 and $839,000 as of December 31, 2010 and 2009, respectively. This represents the amount of deferred taxes recorded at rates higher than currently enacted rates and the impact of deferred investment tax credits on future revenue.

We made a review of our portfolio of uncertain tax positions. In this regard, an uncertain tax position represents our expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. As a result of this review, we determined that we had no material uncertain tax positions.

We file income tax returns in the U.S. federal jurisdiction, the State of New Hampshire and the Commonwealth of Massachusetts. Our 2007 through 2009 tax years remain subject to examination by the Internal Revenue Service and state jurisdictions. Recently, we were notified that our 2009 Federal Income Tax Return will be examined by the Internal Revenue Service.

Our practice is to recognize interest and/or penalties related to income tax matters in other income (expense). We recorded such interest and/or penalties during the years ended December 31, 2010, 2009 and 2008 in the amounts of approximately $0, $3,000 and $4,000, respectively.

Note 9—Debt

Long-term debt as of December 31, 2010 and 2009 consisted of the following:

(in thousands)	2010	2009
Unsecured senior notes payable due to an insurance company:		
7.40%, due March 1, 2021	$ 6,400	$ 6,800
5.00%, due March 4, 2010	—	5,000
Unsecured Business Finance Authority:		
Revenue Bond (2005 Series BC-4), 5.375%, due October 1, 2035	12,290	12,500
Revenue Bond (2005 Series BC-3), 5.00%, due April 1, 2018	7,500	7,500
Revenue Bond (2005 Series A), 4.70%, due October 1, 2035	12,125	12,125
Revenue Bond (Series 2005A), 4.70%, due January 1, 2035	1,810	1,810
Revenue Bond (Series 2005B), 4.60%, due January 1, 2030	2,325	2,335
Revenue Bond (Series 2005C), 4.50%, due January 1, 2025	1,180	1,205
Revenue Bond (Series 2005D), 4.50%, due January 1, 2025	1,000	1,075
Revenue Bond, 1997, 6.30%, due May 1, 2022	3,400	3,600
Secured notes payable to bank, floating rate, due March 1, 2030	4,384	—
Unsecured New Hampshire State Revolving Fund ("SRF") notes [(1)]	8,605	6,538
Total long-term debt	61,019	60,488
Less current portion	(1,053)	(5,897)
Less original issue discount	(300)	(312)
Total long-term debt, net of current portion	$ 59,666	$ 54,279

(1) SRF notes are due through 2031 at interest rates ranging from 1% to 4.488%. These notes are payable in 120 to 240 consecutive monthly installments of principal and interest. The 1% rate applies to construction projects still in process until the earlier of (i) the date of substantial completion of the improvements, or (ii) various dates specified in the note (such earlier date being the interest rate change date). Commencing on the interest rate change date, the interest rate changes to the lower of (i) the rate as stated in the note or (ii) 80% of the established 11 General Obligations Bond Index published during the specified time period before the interest rate change date.

The aggregate principal payment requirements subsequent to December 31, 2010 are as follows:

(in thousands)	Amount
2011	$ 1,053
2012	1,105
2013	1,107
2014	1,121
2015	1,153
2016 and thereafter	55,480
Total	$ 61,019

Certain covenants (as described below) in Pennichuck Water's and Pennichuck East's loan agreements and in our Bank of America revolving credit loan agreement effectively restrict our ability to upstream dividends from Pennichuck Water and Pennichuck East, as well as pay dividends to our shareholders.

Several of Pennichuck Water's loan agreements contain a covenant that prevents Pennichuck Water from declaring dividends if Pennichuck Water does not maintain a minimum net worth of $4.5 million. As of December 31, 2010 and 2009, Pennichuck Water's net worth was $53.1 million and $52.6 million, respectively.

One of Pennichuck East's loan agreements contains a covenant that prevents Pennichuck East from declaring dividends if Pennichuck East does not maintain a minimum net worth of $1.5 million. As of December 31, 2010 and 2009, Pennichuck East's net worth was $7.0 million and $5.6 million, respectively.

Our Bank of America revolving credit loan agreement contains a covenant that requires us to maintain a minimum consolidated tangible net worth of $46.0 million ($37.0 million plus equity proceeds subsequent to December 2007). As of December 31, 2010 and 2009, our consolidated tangible net worth was $56.2 million and $55.2 million, respectively.

Our Company has available a revolving credit facility with a bank. Borrowings under the revolving credit facility bear interest at a variable rate equal to the 30-day LIBOR rate plus a range of 1.2% to 1.7% based on financial ratios. The revolving credit facility matures on June 30, 2011 and is subject to renewal and extension by the bank at that time.

Our short-term borrowing activity for the years ended December 31, 2010 and 2009 were:

(in thousands)	2010	2009
Established line at year end	$ 16,000	$ 16,000
Maximum amount outstanding during year	$ 645	$ 3,765
Average amount outstanding during year	$ 16	$ 2,058
Amount outstanding at year end	$ —	$ —
Weighted average interest rate during year	3.25%	3.19%
Interest rate at year end	3.25%	3.25%

In addition, Pennichuck East has a $1.5 million revolving credit facility with a bank which was established on February 9, 2010. Borrowings under this facility are subject to variable interest rates equal to either a quoted rate at the time of any borrowings or LIBOR rates plus 1.75%, based upon the timeframe for which monies are borrowed, ranging from 30 days to nine months in duration. This facility matures on February 9, 2012, and no borrowings have been made against this facility during its existence.

As of December 31, 2010, we had a $4.4 million interest rate swap which qualifies as a derivative. This financial derivative is designated as a cash flow hedge. This financial instrument is used to mitigate interest rate risk associated with our outstanding $4.4 million loan which has a floating interest rate based on the three-month London Interbank Offered Rate ("LIBOR") plus 1.75% as of December 31, 2010. The combined effect of the LIBOR-based borrowing formula and the swap produces an "all-in fixed borrowing cost" equal to 5.95%. The fair value of the financial derivative, as of December 31, 2010, included in our consolidated balance sheet under "Deferred credits and other reserves" as "Other liabilities" was $314,000. Changes in the fair value of this derivative were deferred in accumulated other comprehensive loss.

Swap settlements are recorded in the income statement with the hedged item as interest expense. During the twelve months ended December 31, 2010, $145,000, pre-tax, was reclassified from accumulated other comprehensive loss to interest expense as a result of swap settlements. We expect to reclassify approximately $167,000, pre-tax, from accumulated other comprehensive loss to interest expense as a result of swap settlements, over the next twelve months.

Note 10—Shareholder Rights Plan

On April 20, 2000, our Board of Directors ("Board") adopted a shareholder rights plan and declared a dividend of one preferred share purchase right ("Right") for each outstanding share of common stock, $1.00 par value. The Rights become exercisable in the event that a person or group acquires, or commences a tender or exchange offer to acquire, more than 15% (up to 20% with the prior approval of the Board of Directors) of our Company's outstanding common stock.

Effective March 24, 2010, our Board voted unanimously to extend the expiration date of the Rights under the rights plan from April 19, 2010 to November 1, 2010. Effective October 29, 2010, our Board voted unanimously to extend the expiration date of the Rights under the rights plan from November 1, 2010 to the date of the 2011 annual meeting of our Company's shareholders, which is expected to be on May 5, 2011. Concurrent with its vote approving the extension of the expiration date of the Rights, the Board also reaffirmed its previously adopted resolution that any extension of the expiration date of the Rights beyond the date of our Company's 2011 annual meeting of shareholders would be subject to a majority shareholder vote at that meeting. Effective November 11, 2010, we amended the rights plan pursuant to which the execution and delivery of the Merger Agreement, the consummation of the merger, and the consummation of any other transaction contemplated by the Merger Agreement will not be deemed to result in events that authorize the exercise of the Rights under our rights plan.

Note 11—Quarterly Financial Data (Unaudited)

(in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2010:				
Operating revenues	$ 7,394	$ 9,135	$ 11,765	$ 8,198
Operating Income	1,055	2,631	4,762	1,648
Net income	175	996	2,273	437
Earnings per common share				
Basic	0.02	0.21	0.49	0.09
Diluted	0.02	0.21	0.48	0.09
Year Ended December 31, 2009:				
Operating revenues	$ 7,023	$ 8,452	$ 9,473	$ 7,824
Operating Income	830	2,239	3,516	1,407
Net (loss) income	(68)	763	1,374	313
(Loss) earnings per common share				
Basic	(0.02)	0.18	0.32	0.07
Diluted	(0.02)	0.18	0.32	0.07

Summary of 2012 Allocated Costs
Year to Date Costs through December 31, 2012
Pennichuck Corporation and Subsidiaries
(Dollar amounts in $ 000's)

		Penn Water		Penn East		Pittsfield		Total Regulated		Con Ops(PASC)		Real Estate(TSC)		Total
Allocated Corporate Costs	$	335,418	$	67,108	$	7,450	$	409,976	$	15,331	$	1,736	$	427,043
%		78.5%		15.7%		1.7%		96.0%		3.6%		0.4%		100.0%
Allocated Return on Common Assets		555,120		120,789		11,550	$	687,459		34,514		1,070	$	723,043
%		76.8%		16.7%		1.6%		95.1%		4.8%		0.1%		100.0%
Allocated Pennichuck Water Costs - Work Orders		1,076,862		239,908		21,245	$	1,338,015		297,873		-	$	1,635,888
%		65.8%		14.7%		1.3%		81.8%		18.2%		0.0%		100.0%
Allocated Pennichuck Water Costs - Management Fee		4,286,519		933,491		92,977	$	5,312,987		416,315		7,726	$	5,737,028
%		74.7%		16.3%		1.6%		92.6%		7.3%		0.1%		100.0%
Total Allocated 2012 Costs	$	6,253,921	$	1,361,297	$	133,222	$	7,748,440	$	764,034	$	10,532	$	8,523,005
%		73.4%		16.0%		1.6%		90.9%		9.0%		0.1%		100.0%

Pennichuck Water Works
Operating Expense Allocation (to other Subsidiary Companies)
For Month Ending 12/31/12

Dollars Applicable to:

Full Year Amounts (to be allocated)	YTD EXPENSES	Tier Allocation Required	Special Allocation	Tier 1 (All)	Tier 2 (Regulated + PWSC)	Tier 3 (PWW+PEU+ PWSC)	Tier 4 (Regulated)	PWSC Only	PAC Only	C Sheing Wages & Fringes Only (budgeted specifically on
Wages										
Officers Salaries & Wages	566,807	1		566,807	-	-	-	-	-	-
Officers Salaries Transferred Out	(36,997)	1		(36,997)	-	-	-	-	-	-
Superintendence (PAC/PEU) - C Sheing	69,428	7	100% to PAC/PEU as Direct	-	-	-	-	-	-	69,428
Salaries - Engineering	654,294	4		-	-	-	654,294	-	-	-
Office Salaries and Wages - IS	360,608	1		360,608	-	-	-	-	-	-
Office Salaries and Wages - Acctg	563,321	1		563,321	-	-	-	-	-	-
Office Salaries and Wages - Admin	259,872	1		259,872	-	-	-	-	-	-
Office Salaries and Wages - C/S	574,319	2		-	574,319	-	-	-	-	-
Office Salaries and Wages - BR	18,957	4	14.00% of BR to utilities based on timesheets	-	-	-	18,957	-	-	-
Office Salaries and Wages - BR	116,449	5	86.00% of BR to PWSC based on time sheets	-	-	-	-	116,449	-	-
Less: Capitalized Overhead Exec & IS	(5,877)	1		(5,877)	-	-	-	-	-	-
Less: Capitalized Overhead Engineering	(150,796)	4		-	-	-	(150,796)	-	-	-
Benefits (Based on 12/31/11 Schedule)										
Officers Salaries & Wages	262,318	1		262,318	-	-	-	-	-	-
Officers Salaries Transferred Out	(17,122)	1		(17,122)	-	-	-	-	-	-
Superintendence (PAC) - C Sheing	11,584	7	100% to PAC as Direct	-	-	-	-	-	-	11,584
Superintendence (PAC) - C Sheing	20,567	7	100% to PEU as Direct	-	-	-	-	-	-	20,567
Salaries - Engineering	302,807	4		-	-	-	302,807	-	-	-
Office Salaries and Wages - IS	166,869	1		166,869	-	-	-	-	-	-
Office Salaries and Wages - Acctg	260,705	1		260,705	-	-	-	-	-	-
Office Salaries and Wages - Admin	120,269	1		120,269	-	-	-	-	-	-
Office Salaries and Wages - C/S	265,795	2		-	265,795	-	-	-	-	-
Office Salaries and Wages - BR	8,773	4	14.00% of BR to utilities based on timesheets	-	-	-	8,773	-	-	-
Office Salaries and Wages - BR	53,893	5	86.00% of BR to PWSC based on time sheets	-	-	-	-	53,893	-	-
Less: Capitalized Overhead Exec & IS	(2,720)	1		(2,720)	-	-	-	-	-	-
Less: Capitalized Overhead Engineering	(69,768)	4		-	-	-	(69,768)	-	-	-

Dollars Applicable to:

Full Year Budgeted Amounts (to be allocated) - Tier 1		Tier Allocation Required	Special Allocation	Tier 1 (All)	Tier 2 (Regulated + PWSC)	Tier 3 (PWW+PEU+ PWSC)	Tier 4 (Regulated)	PWSC Only	PAC Only	C Sharing Wages & Fringes Only (budgeted specifically on
Facilities - Manchester Street										
Office Supplies & Expense	35,553	1		35,553	-	-	-	-	-	-
Office Equipment Rental	31,660	1		31,660	-	-	-	-	-	-
Rental Exp HECOP III	282,279	1		282,279	-	-	-	-	-	-
Manchester St Phone	25,757	1		25,757	-	-	-	-	-	-
HECOP III Fit-up Allowance	-	1		-	-	-	-	-	-	-
Manchester St Electric	38,184	1		38,184	-	-	-	-	-	-
Maintenance Manchester St	29 898	1		29,898	-	-	-	-	-	-
Office Equipment maintenance	17,226	1		17,226	-	-	-	-	-	-
Miscellaneous Charges										
Senior Management Vehicles	5,356	1		5,356	-	-	-		-	-
Senior Management Fuel Purchased	7,721	1		7,721	-	-	-		-	-
Senior Management Vehicle Registrations	688	1		688	-	-	-		-	-
Courier & Express Mail Expense	1,097	1		1,097	-	-	-	-	-	-
Outside Svcs (Supervision/Spec Svcs)	220,330	1		220,330	-	-	-	-	-	-
Meetings and Conventions	14,165	1		14,165	-	-	-	-	-	-
License Fees	15,034	1		15,034	-	-	-	-	-	-
Meals	1,971	1		1,971	-	-	-	-	-	-
Recruiter Fees	3,645	1		3,645	-	-	-	-	-	-
Engineering Dept Expense	4,885	4		-	-	-	4,885	-	-	-
Engineering Vehicles	8,303	4		-	-	-	8,303	-	-	-
Engineering - Fuel Purchased	21,957	4		-	-	-	21,957	-	-	-
Engineering - Vehicle Registration	1,956	4		-	-	-	1,956	-	-	-
Maint of Communication Equip	3,530	2		-	3,530	-	-	-	-	-
Computer Maintenance	311,459	1		311,459	-	-	-	-	-	-
Depreciation - 2403 & Amort										
Comm Depreciation	58,831	2		-	58,831	-	-	-	-	-
Computer Depreciation	259,172	1		259,172	-	-	-	-	-	-
Office Furniture Depreciation	38,061	1		38,061	-	-	-	-	-	-
Amort Recruiter Fees (Def Chgs)	-	1		-						
Union Negotiations - 2011	25,556	1		25,556						
Compensation Study - 2008	-	1		-						
Total Allocable Expenses	5,838,586			3,862,882	902,476	-	801,327	170,342	-	101,569

Tier 1 - use the corporate expense allocation between TSC, PWSC and regulated utilities. The allocation among utilities will be based on total assets and customers.
Tier 2 - allocate to PWW, PEU, PAC and PWSC based on total assets and customers
Tier 3 - allocate to PWW, PEU and PWSC based on total assets and customers
Tier 4 - allocate to the regulated utilities (PWW, PEU and PAC) based on total assets and customers
(1) Retention/Bonus, Overtime, Merit Increases and summer temp help are included in Officers' and Office Salaries
(2) Outside Services include temporary help from temporary services providers
(3) Effectively, all Admin & Gen Expense (incl Engineering) are allocated less insurance, Regulatory Commission, Memberships, Misc General, Public Relations and Charitable Contributions and Union Benefits

Allocation Calculation - Tier 1 (All Companies)

	PWW	PEU	Pittsfield	Total Regulated	Con Ops (PWS)1	Real Estate (TSC)[1]	Total	Check Total
Revenues[4]	$ 28,084,480	$ 6,283,366	$ 691,120	$ 35,058,967	$ 2,687,311	$ -	$ 37,746,277	
				92.88%	7.12%	0.00%	100.00%	
Employees (FTEs) - 2012				105	1	0	106	
(including summer help)				99.06%	0.94%	0.00%	100.00%	
Square Footage - w/ addt'l lease space				17,891	1,574	0	19,465	
Manchester Street Facility[5]				91.91%	8.09%	0.00%	100.00%	
Total Assets[2]	$ 241,107,852	$ 43,108,533	$ 4,835,412	$ 289,051,798	$ 176,914	$ 2,371,235	$ 291,599,947	
	83.41%	14.91%	1.67%	99.13%	0.06%	0.81%	100.00%	
Customers[3]	26,871	6,969	629	34,469				
	77.96%	20.22%	1.82%	100.00%				
Average Percentage	80.69%	17.57%	1.75%	95.75%	4.05%	0.20%	100.00%	
Allocation of Allocable Expenses	2,984,119	649,863	64,727	3,698,709	156,447	7,726	$ 3,862,882	$ -
Effective Allocation %	77.25%	16.82%	1.68%		4.05%	0.20%		

[1] - TSC employees not counted as their payroll and benefits are charged directly; PWS - 100% of 1 employee and 50% of 1 employee charged directly and not counted
[2] - Based on December 2012 Preliminary Less Intercompany Account Balances per Charlie/Larry 6/07
[3] - Based on December 2012 Actuals
[4] - Based on December 2012 Preliminary
[5] - Effective 5/31/08 TSC will not be charged square footage

Allocation Calculation - Tier 2 (All Regulated Companies plus PWSC)

	PWW	PEU	Pittsfield	Total Regulated	Con Ops (PWS) 1	Real Estate (TSC)	Total	Check Total
Total Assets[2]	$ 241,107,852	$ 43,108,533	$ 4,835,412	$ 289,051,798	$ 176,914	$ -	$ 289,228,712	
	83.41%	14.91%	1.67%	99.94%	0.06%	0.00%	100.00%	
Customers[3]	26,871	6,969	629	34,469	8,501	0	42,970	
	77.96%	20.22%	1.82%	80.22%	19.78%			
Average Percentage	80.69%	17.57%	1.75%	90.08%	9.92%		100.00%	
Allocation of Allocable Expenses	655,888	142,835	14,227	812,950	89,526	0	$ 902,476	$ -
Effective Allocation %	72.68%	15.83%	1.58%		9.92%	N/A		

[1] - PWS customers based on municipality customers and pro rated based on services rendered

Allocation Calculation - Tier 3 (PWW, PEU and PWSC)

	PWW	PEU	Pittsfield	Con Ops (PWS)	Real Estate (TSC)	Total	Check Total
Total Assets[2]	$ 241,107,852	$ 43,108,533		$ 176,914		$ 284,393,300	
	84 78%	15 16%		0.06%		100 00%	
Customers[3]	26,871	6,969		8,501		42,341	
	63 46%	16 46%		20 08%		100 00%	
Average Percentage	74 12%	15.81%		10 07%		100 00%	
Allocation of Allocable Expenses	$ -	$ -	0	$ -	0	$ -	$ -
Effective Allocation %	#DIV/0!	#DIV/0!	N/A	#DIV/0!	N/A		

Allocation Calculation - Tier 4 (Regulated Companies)

	PWW	PEU	Pittsfield	Con Ops (PWS)	Real Estate (TSC)[1]	Total	Check Total
Total Assets[2]	$ 241,107,852	$ 43,108,533	$ 4,835,412			$ 289,051,798	
	83 41%	14,91%	1.67%			99 99%	
Customers[3]	26,871	6,969	629			34,469	
	77 96%	20 22%	1 82%			100 00%	
Average Percentage	80 69%	17 57%	1.75%			100.01%	
Allocation of Allocable Expenses	$ 648,511	$ 140,793	$ 14,023	0	0	$ 801,327	$ -
Effective Allocation %	80 68%	17 57%	1 75%	N/A	N/A		

Specific Allocation Calculations - Tier 5-7

	PWW	PEU	Pittsfield	Con Ops (PWS)	Real Estate (TSC)[1]	Total	Check Total
Direct Allocable Costs	0	0	-	170,342	0	170,342	$ -
	N/A	N/A			N/A		

Summary of Allocations	PWW	PEU	Pittsfield	Con Ops (PWS)	Real Estate (TSC)	Totals	Unallocated PAC/PEU	Total	Check Total
Tier 1	2,984,119	649,863	64,727	155,447	7,726	3,862,882			
Tier 2	655,888	142,835	14,227	89,526	-	902,476			
Tier 3	-	-	-	-	-	-			
Tier 4	648 511	140,793	14,023	-	-	801 327			
PWSC only and PAC only	-	-	-	170,342	-	170,342			
Total Allocations	4,288,518	833,491	92,977	416,315	7,726	5,737,028	101,859	5,838,886	-
	74.72%	16 27%	1,62%	7.26%	0 13%	100,00%			

2011 BENEFIT SUMMARY

Step Allocation of Benefits

2011 Benefits	Total Dollars	Non-Union Wage Portion	Union Wage Portion	Allocation Method
Officer's Life Insurance	13,249	13,249	-	Specific
Pension - DB Plan	995,541	619,323	376,218	Allocated based on pro-rata wages
Group Pension 401K	210,608	131,019	79,589	Allocated based on pro-rata wages
Post Retirement Health Expense	83,406	51,887	31,519	Allocated based on pro-rata wages
Post Employment Health Expense	210,766	131,117	79,649	Allocated based on pro-rata wages
Group Health Insurance	1,341,949	670,974	670,974	Based on actual participation (HR)
Health Insurance: Opt Out	6,000	3,176	2,824	Allocated based on pro-rata headcounts
Group Dental	149,245	74,622	74,622	Based on actual participation (HR)
Group Life/Disability Insurance	20,870	11,049	9,821	Allocated based on pro-rata headcounts
Employee Benefits/Section 125	-	-	-	Allocated based on pro-rata headcounts
Misc Employee Benefits	41,757	22,107	19,650	Allocated based on pro-rata headcounts
Tuition Reimbursements	11,455	6,064	5,391	Allocated based on pro-rata headcounts
Training Educational Seminars	67,750	35,867	31,883	Allocated based on pro-rata headcounts
Boot & Clothing Allowance-OPS	217,843	-	217,843	Allocated based on pro-rata wages
Boot & Clothing Allowance-CS-Union	5,319	-	5,319	Allocated based on pro-rata wages
Boot & Clothing Allowance-WTP	96,351	-	96,351	Allocated based on pro-rata wages
Union Sick Time	52,126	-	52,126	Allocated based on pro-rata wages
Vacation Earned YTD (per Acc Vac Rpt) Union Only	16,712	-	16,712	From LG's calculation
SERP	125,135	125,135	-	Specific
Payroll Taxes:				
Employer FICA/Medicare	537,685	313,323	224,362	Allocated based on pro-rata wages
FUTA	7,071	4,399	2,672	Allocated based on pro-rata wages
SUI	33,406	20,782	12,624	Allocated based on pro-rata wages
Total Benefits	4,244,245	2,234,094	2,010,151	
Benefits % (of wages)	54.7%	46.28%	68.42%	
Total Wages thru 12/28/11	7,760,613	4,827,982	2,932,832	Wages per Payroll (Paylocity)
Less: Accrued Wages as of 12/31/10	(129,897)	(80,690)	(49,207)	Year End Payroll Accrual Entry
Add: Accrued Wages thru current mo-end	134,623	80,416	54,207	Current Month Payroll Accrual
Grand Total Wages	7,765,539	4,827,706	2,937,832	
%	100.0%	62.2%	37.8%	
Total Headcount	102	54	48	
(Excluding Summer Help)	100.0%	52.9%	47.1%	

Pennichuck Water Works
Work Order Allocation of Operations and Production Expenses
For Month Ending 12/31/12

Full Year Amounts (to be allocated)	
Wages	
Superintendence - WTP	206,759
Office Salaries & Wages: WTP	183,587
Purification Labor	194,786
Superintendence - Operations	230,130
Office Salaries - Operations	82,458
Benefits	
Superintendence - WTP	95,688
Office Salaries & Wages: WTP	84,964
Purification Labor	90,147
Superintendence - Operations	106,504
Office Salaries - Operations	38,162
Facilities - Will Street	
Maint. Meter Department	663
Will Street Parking	6,404
Will Street Office Supplies	17,030
Will Street Gas	3,028
Will Street Electric	9,225
Will Street Phone	16,632
Miscellaneous Charges	
Misc Gen Exp Ops	6,200
Misc T&D Materials & Supplies	23,904
Stores Expense	22,013
Small Tools Expense	18,039
OPS - Non-Union Vehicles	3,330
OPS - Non-Union Vehicle Registration	1,088
WTP - Non-Union Vehicles	8,758
WTP - Non-Union Vehicle Registration	505
Misc Transport Expense	49,755
Non-Union Vehicle Fuel Costs	40,076
Vactor Machine	-
Misc Gen Equipment Exp	1,553
Depreciation - 2304	
Will Street Facility	10,073
Tools, Shop & Garage	25,761
Other Tangible Equipment-Misc Equip	29,588
Non-Union Transporation Depreciation	40,081
Total Allocable Expenses	1,635,889

2012 Workorder Costs

	PWW Capital	070 WTP Maintenance	080 OPS Maintenance	Fleet	PWW Jobbing	PWS Maintenance	PWS Jobbing	PAC Capital	PAC Maintenance	PEU Capital	PEU Maintenance	Total	
Labor	144,995.83	683,060.63	1,027,374.85	49,047.97	50,707.21	390,295.85	66,980.11	203.73	57,220.05	28,157.69	467,337.51	2,965,381.43	
Contractor Clearing	9,363.93	350.21	2,237.44	141,617.27	9,252.52	-	482,756.32	-	-	3,990.00	370.25	649,937.94	
Inventory: Pipes & Fittings	61,672.47	254.14	66,622.27	-	43,164.42	68.81	21,396.52	-	956.84	17,797.62	15,386.38	227,319.47	
Inventory: Meters	320,746.21	-	37,489.01	-	575.61	1,276.81	7,297.04	1,896.72	806.02	25,803.40	6,109.79	402,004.61	
Inventory: Misc T&D	5,222.96	2,043.62	19,201.63	-	1,633.15	-	1,746.78	-	500.90	2,027.49	7,298.36	39,674.89	
Inventory: Chemicals	-	651,687.64	-	-	-	-	21,487.96	-	1,232.78	-	54,847.41	729,255.77	
Inventory: Fleet	-	-	9.34	2,227.82	-	-	-	-	-	-	-	2,237.16	
Inventory: Backup Gen Fuel	-	3,987.80	-	-	-	-	16.00	-	-	-	-	4,003.80	
Misc T&D Supplies	-	-	-	-	1,883.39	-	16.00	-	-	-	-	1,899.39	
Truck	69,543.32	68,271.31	224,978.19	1,919.57	23,551.46	132,786.62	24,397.58	82.02	10,672.57	12,731.45	175,943.44	744,877.53	
Backhoe	7,115.20	1,020.13	20,486.83	-	6,161.33	69.00	3,779.70	-	574.63	3,386.38	12,105.10	54,898.30	
Compressor	85.00	-	5,523.50	-	-	392.50	586.63	-	-	-	826.75	7,414.38	
Inspection Fees	-	-	-	-	98,333.00	-	-	-	-	-	-	98,333.00	
Overhead	14,333.45	-	-	-	45,665.92	-	-	46.40	-	2,348.77	-	62,394.54	
Labor Overhead	99,127.29	467,570.98	702,929.87	33,556.52	51,709.18	256,988.64	45,734.93	136.45	29,504.51	19,174.40	319,259.51	2,025,995.49	
Misc General Equipment	-	-	-	-	-	1,830.00	140.00	-	-	40.00	985.00	2,995.00	
Total Costs	732,207.86	1,878,245.56	2,106,352.93	228,321.25	332,637.39	784,730.23	676,335.57	2,367.37	101,768.28	115,457.20	1,060,469.50	8,018,422.70	
Total Costs w/o OH & CWIP	705,610.28	1,877,495.35	2,104,615.49	86,752.98	277,718.75	783,730.23	193,579.25	2,320.92	101,768.28	109,118.43	1,060,039.25	7,305,050.22	
% of Total	9.13%	23.42%	26.26%	2.85%	4.15%	9.77%	8.43%	0.03%	1.27%	1.44%	13.23%	100.00%	
% of Total w/o OH & CWIP	0.10	0.26	0.29	0.01	0.04	0.11	0.03	0.00	0.01	0.01	0.15	1 00	
Ovhd Allocable to Work Orders													
1,635,889	149,382	383,193	429,833	46,591	67,863	159,890	137,983	483	20,762	23,555	216,353	1,635,888	
Totals by Company:													
PWW	149,382	383,193	429,833	46,591	67,863						-	1,076,862	65.8%
PEU										23,555	216,353	239,908	14.7%
PAC								483	20,762			21,245	1.3%
PWS						159,890	137,983					297,873	18.2%
Total Overhead	149,382	383,193	429,833	46,591	67,863	159,890	137,983	483	20,762	23,555	216,353	1,635,888	100.0%
% Labor	4.89%	23.03%	34.65%	1.65%	1.71%	13.16%	2.26%	0.01%	1.93%	0.95%	15.76%	100.00%	

**070, 080 & Fleet Labor Overhead has been calculated per Charlie.

Pennichuck Water Works
Return on Common Assets Allocation (to other Subsidiary Companies)
For Month Ending 12/31/12

Effective Tax Rate - current 43.27%

8.04%

Dollars Applicable to:

Account Number	Full Year Amounts (to be allocated)	Rate of Return	Net Book Value	Tier Allocation Required	Tier 1 (All)	Tier 2 (Regulated + PWSC)	Tier 3 (PWW+PEU+ PWSC)	Tier 4 (Regulated)	PWSC Only	PAC Only	TSC Only (budgeted specifically on TSC P/L)
2340	Office Furniture & Equipment	12,110	200,489.59	1	12,110	-	-	-	-	-	-
2341	Transportation Equipment	80,965	1,340,486.77	2	-	80,965	-	-	-	-	-
2343	Tools, Shop & Garage Equipment	19,644	325,232.01	3	-	-	19,644	-	-	-	-
2334	Construction Meters	114	1,883.67	2	-	114	-	-	-	-	-
2345	Power Operated Equipment	10,943	181,167.80	2	-	10,943	-	-	-	-	-
2346	Communication Equipment	41,616	689,004.93	4	-	-	-	41,616	-	-	-
2347	Computer Equipment	49,077	812,531.36	1	49,077	-	-	-	-	-	-
2348	Other Plant and Misc Equipment	23,858	395,008.00	4	-	-	-	23,858	-	-	-
2304-700	[illegible] Street Office	26	433.63	3	-	-	26	-	-	-	-
2304-750	[illegible] Street Expansion	10,869	179,947.75	3	-	-	10,869	-	-	-	-
950	Deferred Pension Costs	476,612	7,674,370	1	476,612	-	-	-	-	-	-
955	Deferred Post Retirement Health	35,945	844,842	1	35,945	-	-	-	-	-	-
960	Deferred Post Employment Health	(25,578)	(423,476)	1	(25,578)	-	-	-	-	-	-
245	Deferred SERP	45,183	748,071	1	45,183	-	-	-	-	-	-
440	VEBA Trust - Union	34,052	563,782	1	34,052	-	-	-	-	-	-
445	VEBA Trust - Non-union	15,351	254,162	1	15,351	-	-	-	-	-	-
225	Employer Recruiter Fees	-	-	1	-	-	-	-	-	-	-
204	Union Negotiations - 2010	129	2,135	1	129	-	-	-	-	-	-
Unfunded FAS 106 & FAS 158 Costs (net of taxes at 39.61%)											
950	Deferred Pension Costs		7,674,370.09								
960	Deferred Post Employment Health		(423,475.50)								
955	Deferred Post Retirement Health		844,842.43								
245	Deferred SERP		748,070.95								
236	Less: Accrued Liability Pension - ST		-								
231	Less: Accrued Liability Pension - LT		[illegible]								
304	Less: Post Employment Health Liability - ST		(25,957)								
305	Less: Post Employment Health Liability - LT		(445,717)								
306	Less: Accrued Liability SERP		(801,427)								
440	VEBA Trust - Union		563,782.11								
445	VEBA Trust - Non-union		254,161.66								
316	Less: Post Retirement Liability Health - ST		-								
315	Less: Post Retirement Liability Health - LT		(2,740,031)								
	Subtotal		[illegible]								
	Less: Tax impact at current effective tax rate		[illegible]								
	Net Impact Unfunded FAS 106 & FAS 158 Costs	(109,876)	(1,819,136)	1	(109,876)	-	-	-	-	-	-
	Total Allocable Expenses	723,043	11,970,930.50		[illegible]	92,022	30,539	65,474	-	-	-

Note: Rate of Return based on YTD NBV/ 12#months

Tier 1 - use the corporate expense allocation between TSC, PWSC and regulated utilities The allocation among utilities will be based on total assets and customers
Tier 2 - allocate to PWW, PEU, PAC and PWSC based on total assets and customers
Tier 3 - allocate to PWW, PEU and PWSC based on total assets and customers
Tier 4 - allocate to the regulated utilities (PWW, PEU and PAC) based on total assets and customers
Note Laboratory Equipment not included Currently, PWW charges a $15 fee for all lab work which is considered to be a competitive price and $5 higher than charged by the State of New Hampshire

Allocation Calculation – Tier 1 (All Companies)

	PWW	PEU	Pittsfield	Total Regulated	Con Ops (PWS)	Real Estate (TSC)[1]	Total	
Revenues[2]	28,084,480	6,283,368	691,120	$ 35,058,967	$ 2,687,311	$ -	$ 37,746,277	
				92.88%	7.12%	0.00%	100.00%	
Employees (FTE's) - 2012				105	1.5	0	107	
(including summer help)				98.59%	1.41%	0.00%	100.00%	
Square Footage - w/ add'l lease space				17,891	1,574	0	19,465	
Manchester Street Facility				91.91%	8.09%	0.00%	100.00%	
Total Assets[2]	$ 241,107,852	$ 43,108,533	$ 4,835,412	$ 289,051,798	$ 178,814	$ 2,371,235	$ 291,599,947	
	83.41%	14.91%	1.67%	99.13%	0.06%	0.81%	100.00%	
Customers[3]	26,871	6,969	629	34,469				
	77.95%	20.22%	1.83%	100.00%				
Average Percentage	80.69%	17.57%	1.75%	95.63%	4.17%	0.20%	100.00%	
								Check Total
Allocation of Allocable Expenses	412,782	89 893	8,953	511,626	22,310	1,070	$ 535,008	$ -
Effective Allocation %	77.15%	16.80%	1.67%		4.17%	0.20%		

1 - TSC employees not counted as their payroll and benefits are charged directly. PWS - 100% of 1 employee and 50% of 1 employee charged directly and not counted

2 - Based on December 2012 Preliminary Less Intercompany Account Balances per Charlie/Larry 5/07

3 - Based on December 2012 Actuals

5 - Effective 5/31/08 TSC will not be charged square footage

Allocation Calculation - Tier 2 (All Regulated Companies plus PWSC)

	PWW	PEU	Pittsfield	Total Regulated	Con Ops (PWS) 1	Real Estate (TSC)	Total	
Total Assets[2]	$ 241,107,852	$ 43 108 533	$ 4,835,412	$ 289,051,798	$ 176,914	$ -	$ 289,228,712	
	83.41%	14.91%	1.67%	99.94%	0.06%	0.00%	100.00%	
Customers[3]	26,871	6,969	629	34,469	8,501	0	42,970	
	77.96%	20.22%	1.82%	80.22%	19.78%			
Average Percentage	80.69%	17.57%	1.75%	90.08%	9.92%		100.00%	
								Check Total
Allocation of Allocable Expenses	66,878	14,584	1 451	82,893	9,129	0	$ 92,022	$ -
Effective Allocation %	72.68%	15.83%	1.58%		9.92%	N/A		

3 - PWS customers based on municipality customers and pro rated based on services rendered

Allocation Calculation - Tier 3 (PWW, PEU and PWSC)

	PWW	PEU	Pittsfield	Con Ops (PWS)	Real Estate (TSC)	Total	
Total Assets[2]	$ 241,107,852	$ 43,108,533		$ 176,914		$ 284,393,300	
	84.78%	15.16%		0.06%		100.00%	
Customers[3]	26,871	6,969		8,501		42,341	
	63.46%	16.46%		20.08%		100.00%	
Average Percentage	74.12%	15.81%		10.07%		100.00%	
							Check Total
Allocation of Allocable Expenses	$ 22,636	$ 4,828	0	$ 3,075	0	$ 30,539	$ -
Effective Allocation %	74.12%	15.81%	N/A	10.07%	N/A		

Allocation Calculation - Tier 4 (Regulated Companies)

	PWW	PEU	Pittsfield	Con Ops (PWS)	Real Estate (TSC)[1]	Total	Check Total
Total Assets[2]	$ 241,107,852	$ 43,108,533	$ 4,835,412			$ 289,081,798	
	83.41%	14.91%	1.67%			100.00%	
Customers[3]	26,871	6,969	629			34,469	
	77.96%	20.22%	1.83%			100.00%	
Average Percentage	80.69%	17.57%	1.75%			100.01%	
Allocation of Allocable Expenses	$ 52,824	$ 11,504	$ 1,146	0	0	$ 65,474	$ -
Effective Allocation %	80.68%	17.57%	1.75%	N/A	N/A		

Specific Allocation Calculations - Tier 5-7

	PWW	PEU	Pittsfield	North Country	Con Ops (PWS)	Real Estate (TSC)[1]	Total	Check Total
Direct Allocable Costs	0	0	-		-	0	-	$ -
	N/A	N/A				N/A		

Summary of Allocations

	PWW	PEU	Pittsfield	North Country	Con Ops (PWS)	Real Estate (TSC)	Totals	unallocated TSC	Check Total
Tier 1	412,782	89,893	8,953	-	22,310	1,070	535,008		
Tier 2	66,878	14,564	1,461	-	9,120	-	92,022		
Tier 3	22,636	4,829	-	-	3,075	-	30,539		
Tier 4	52,824	11,504	1,146	-	-	-	65,474		
PWSC only and PAC only	-	-	-	-	-	-	-		
Total Allocations	555,120	120,789	11,560	-	34,514	1,070	725,043	-	-
	[illegible]	16.71%	1.60%	0.00%	4.77%	0.15%	100.00%		

Summary Transfers from PWW Operating to Other Companies
Full Year Amounts

	Annual Amts	Monthly Amts
PWW operating expense allocation - PWW	$ (167,923)	$ (13,994)
PWW operating expense allocation - PEU	$ 120,788	$ 10,066
PWW operating expense allocation - Pittsfield	$ 11,650	$ 983
PWW operating expense allocation - PCP	$ -	$ -
PWW operating expense allocation - PWS	$ 34,514	$ 2,876
PWW operating expense allocation - TSC	$ 1,070	$ 89
Check Totals	$ -	$ -

Pennichuck Corporation
Mgmt Fee Expense Allocation (to other Subsidiary Companies)
For Month Ending 12/31/12

Professional Fees	57,400
D&O Insurance	35,950
Annual Report Cost	-
Auditors Expense/SEC Legal	186,702
Corp Governance Legal/American Stock Transfer	4,398
Directors Fees & Meetings/Corporate Secretary	26,127
EDGAR Filing/NASDAQ/All Other Misc	37
Board of Directors	113,435
Total Allocable Expense	427,047

Allocation Calculation - Jan(1.1/All Companies)

	PWW	PEU	Pittsfield	Total Regulated	Con Ops (PWS)	Real Estate (TSC)	Total	Check Total
Revenues	$ 28,084,450	$ 6,283,386	$ 691,120	$ 35,058,957	$ 2,687,321	$ -	$ 37,746,277	
December 2012 Prelims	74.40%	16.65%	1.83%		7.12%	0.00%	100.00%	
Total Assets	$ 241,107,852	$ 43,108,533	$ 4,825,412	$ 289,051,798	$ 176,914	$ 2,371,235	$ 291,589,947	
December 2012 Prelims	82.69%	14.78%	1.66%		0.06%	0.81%	100.00%	
Average Percentage	78.54%	15.71%	1.74%		3.59%	0.41%	100.00%	
Allocation of Allocable Expenses	335,418	67,108	7,450	$ 409,978	15,331	1,736	$ 427,043	$ 4

Summary Transfers from PCP Operation to Other Companies - Full Year Amounts

	YTD Costs	Current Balance	Monthly Adj
PCP Mgmt Fee Expense Allocation - PCP	$ (427,043)	$ (426,779)	(264)
PCP Mgmt Fee Expense Allocation - PWW	$ 335,418	333,733	1,685
PCP Mgmt Fee Expense Allocation - PEU	$ 67,108	68,327	(1,219)
PCP Mgmt Fee Expense Allocation - PAC	$ 7,450	7,588	(138)
PCP Mgmt Fee Expense Allocation - PWS	$ 15,331	15,326	5
PCP Mgmt Fee Expense Allocation - TSC	$ 1,736	1,805	(69)
Check Totals	$ -	$ -	$ -

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(27)

(27) Uniform Statistical Report – Not Applicable.

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

Provided pursuant to NHPUC Rule 1604.01(28)

(28) Summary Work Papers – To be submitted with testimony and supporting schedules in 1604-06.