PENNICHUCK

25 Manchester Street
PO Box 1947
Merrimack, NH 03054-1947
(603) 882-5191
Fax (603) 913-2305
www.pennichuck.com

DW 05-072

PENNICHUCK EAST UTILITY, INC.

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

1604.01

May 2005

PENNICHUCK

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Documents Filed Under NHPUC Rule 1604-01

1. Internal Financial Reports – these have either been filed previously with the Commission or will be filed as a part of the Company's rate case filing.

2. Annual Reports to Stockholders – not applicable because Pennichuck East Utility, Inc. is a subsidiary of Pennichuck Corporation and has no other shareholders. Pennichuck Corporation's Annual report to Shareholders contained in this binder.

3. Federal Income Tax Reconciliation – contained in this binder.

4. Detailed Tax Factor Computation – contained in this binder.

5. Charitable Contributions – contained in this binder.

6. Advertising Charges Charged Above the Line – none.

7. Cost of Service Study – none.

8. 2005 Construction Budget – contained in this binder.
   Pennichuck East Utility, Inc. 5-year Capital Budget – contained in this binder.

9. Chart of Accounts – no difference.

10. Forms 10-K and 10-Q – 2004 and 2003 contained in this binder.

11. Membership Fees and Dues – contained in this binder.
    Meetings and Conventions Dues – contained in this binder.

12. Recent Management and Depreciation Studies – no management study has been undertaken by the Company. Pennichuck East Utility, Inc. is in the process of completing a Depreciation Study. The Study will be provided upon completion.

13. Audits or Studies which Utility has not submitted to Commission – none.

14. Information Concerning Officers and Directors – contained in this binder.

15. Lists of the Amount of Voting Stock – contained in this binder.

16. Payments in Excess of $50,000 – contained in this binder.

17. Asset 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.

18. Balance Sheet and Income Statements – contained in this binder.

19. Quarterly Income Statements – contained in this binder.

20. Quarterly Sales Volume – contained in this binder.

21. Needs for External Capital – contained in this binder.

22. Sources and Uses of Funds – contained in this binder.

23. Sinking Fund Provisions – contained in this binder.

24. Short Term Debt Outstanding – contained in this binder.

25. Parent Company Information – 2004, 2003, 2002, 2001 and 2000 Annual Reports to Shareholders contained in this binder. Form 10-K and Form 10-Q previously filed with Commission contained in this binder.

26. Management Fee Information – contained in this binder.

27. Uniform Statistical Report – not applicable.

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

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

(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

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

Pennichuck Corporation *2004 Annual Report*

company overview

Pennichuck Corporation ("The Company") is a holding company with five wholly-owned operating subsidiaries. Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("PEU"), and Pittsfield Aqueduct Company, Inc. ("PAC"), are regulated water utilities. Pennichuck Water Service Corporation ("PWSC") provides water system management services for towns, businesses, and residential communities. The Southwood Corporation ("Southwood") is a developer of commercial and residential real estate with land and commercial properties in Nashua and Merrimack, NH.

shareholder information

A copy of the Company's annual report on Form 10-K as filed with the Securities and Exchange Commission is available on the Internet at www.Pennichuck.com or by request from the Company. For a copy of the Form 10-K or other investor information, contact Investor Relations, Pennichuck Corporation, 25 Manchester Street, PO Box 1947, Merrimack, NH 03054-1947.

Stock Transfer Agent and Registrar: American Stock Transfer & Trust Company, Shareholder Relations, 59 Maiden Lane, Plaza Level, New York, NY 10038, 800-937-5449, www.amstock.com.

Pennichuck Corporation's Annual Shareholders' Meeting will be held May 5, 2005 at 9:00 am, at the Nashua Marriott Hotel, 2200 Southwood Drive in Nashua, New Hampshire.

The Power of Public-Private Partnerships.

As the provider of one of life's most basic and precious resources, Pennichuck is part of the very fabric of all the communities we serve. Ultimately, the prosperity of your Company is directly tied to the well-being of these same communities. This is not a responsibility we take lightly. We are a true partner. A private company working in cooperation to promote the public good. Providing the highest level of service at the lowest possible price. And creating a win-win situation for all of us. Pennichuck has always strived to protect the best interests and help better the communities we serve. That is just as important to us today, as it has been throughout our more than 150 years in continuous operation.

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Donald L. Correll

Dear Shareholders:

Pennichuck's vision is to become the premier supplier of water-related services throughout the Northeast. During 2004, we took several important steps toward achieving this mission. When we ultimately succeed, it will be the result of expanding our business incrementally, combined with a growth strategy to build new relationships with, or acquire, existing water systems and utilities of significant size.

"Operating a municipality's water system under contract is an effective way to enter new markets. Therefore, public-private partnerships will be a key component of our growth strategy in the years to come."

Donald L. Correll
President and CEO,
Pennichuck Corporation

Replicating the proven expansion strategy Pennichuck employed in New Hampshire, we will establish new operating hubs in other markets. We will then aggressively pursue complementary opportunities for other business operations. Operating a municipality's water system under contract is an effective way to enter new markets. Therefore, public-private partnerships will be a key component of our growth strategy in the years to come.

In terms of overall performance, 2004 was a pivotal year for Pennichuck. I believe that achieving respectable financial results, despite the continuing challenges we face in our struggle with the City of Nashua, is a true testament to the fundamental strength and stability of your Company.

The Company's total consolidated revenues were $23.0 million for 2004, compared to $21.4 million in 2003. Net income was $1.8 million versus $1.2 million, and consolidated earnings per share were $.76, compared to $.52 the previous year. Annual revenue from our three regulated water utilities was $19.6 million in 2004, compared to $18.7 million in 2003, while revenues from non-regulated water businesses and other activities was $1.9 million, compared to $1.7 million in 2003.

These figures reflect consistent performance across all our businesses. However, considering that we had to pay out close to $1.4 million in legal and other costs primarily associated with defending the Company, it is clear to see the burden that the City of Nashua's eminent domain proceeding continues to place on our overall finances. Regrettably, it seems likely that we will face similar expenditures in 2005 and 2006.

On the regulated side of the business, we continued to strengthen our utility operations by investing in capital improvements to enhance customer service, to prepare for more stringent regulatory requirements, and to plan for future growth. In 2004, we were granted an 8.9% rate increase in our core system. However, the resulting gain in revenues was tempered by lower consumption due to cooler, wetter weather last summer.

Early last year, we reorganized the management structure of Pennichuck Water Service Company (PWSC), to better position this subsidiary in the market, and to pursue a more aggressive growth strategy. PWSC consummated the acquisitions of a number of smaller community water systems in 2004, and we laid the groundwork for several more acquisitions that we expect will come to fruition early in 2005.

2004 was also a successful year for The Southwood Corporation (Southwood), our real estate subsidiary, which posted its strongest financial performance in three years. This February, Michael C. J. Fallon was appointed President of Southwood. With over 30 years of experience in the real estate industry, specializing in strategic asset management for corporate and institutional portfolios, Mr. Fallon's considerable skills are ideally suited to his new role at Southwood.

Another welcome addition to our management team is William D. Patterson, who joins the Company as CFO. Mr. Patterson has over 25 years of experience in the water and utility industries. Most recently, he founded and served as President of EnSTAR Management Corporation and also served as Executive Advisor to Concentric Energy Advisors in Marlborough, MA, providing independent corporate finance advisory and consulting services to utility and energy companies. Mr. Patterson replaces Charles J. Staab, who recently announced his retirement after 22 years with the Company.

Last year we worked to recapture the momentum Pennichuck enjoyed before we became hindered by the City of Nashua's fight to take over your Company's assets. In late December, the New Hampshire Public Utilities Commission (NHPUC) ruled that the City had no authority to acquire either Pennichuck East Utility (PEU), or Pittsfield Aqueduct Company (PAC), which raises serious questions about Nashua's argument that taking over any of Pennichuck's water utilities is what's best for the people.

The NHPUC's ruling also validates our commitment to defending your Company. Rest assured that we will use any necessary and appropriate means to protect the best interests of our customers, our employees, and you, our shareholders. We have taken steps to ensure that the operations of our subsidiaries are not affected by the challenges facing the parent holding company. In addition, we have filed several motions to preserve our right to pursue damages through the courts.

Many of our customers have been asking what they can do to help resolve our fight with the City of Nashua. In response, Pennichuck supported the creation of the SmartWater Campaign. This grass roots initiative provides a forum for citizens to express their concerns, so that they might be heard by officials in the City government.

Despite our ongoing legal battle, we remain focused on our primary business objectives and fully expect this momentum to build throughout 2005 and beyond. We have taken appropriate steps to finance, restructure and refinance elements of our overall capital structure, and we are encouraged by the financial markets' recognition of the underlying financial strength of our core utility business.

In closing, I would like to thank our employees and shareholders for their continued support through this challenging period in our Company's history. Viewed in the context of our more than 150 years of continuous operation, this represents a brief period of turmoil that we are doing everything we can to put quickly and finally behind us.

Sincerely,

Don Correll

Donald L. Correll

President and CEO, Pennichuck Corporation

The concept of public-private partnerships represents an important trend in the water industry, and one that will undoubtedly become even more prevalent in the years to come. The reason for the growing interest in these relationships is simple. Public-private partnerships provide a highly attractive solution for some very pressing and expensive challenges facing municipal water systems all across the country.

Pennichuck Corporation.

The oldest, continuously operating corporation in New Hampshire.

Many communities are being forced to make major capital improvements and upgrade their water systems in order to remain in compliance with increasingly stringent government regulations for water quality. However, it is often difficult for communities to fund such large expenditures from taxpayer dollars.

Despite their preference to maintain local control of their water system, many municipalities are unwilling or unable to make the necessary improvements to stay in compliance. Establishing public-private partnerships offers a welcome solution to this dilemma and, as a result, presents some very exciting growth opportunities for Pennichuck.

Public-private partnerships provide strong growth opportunities for PWSC.

True partnerships benefit all parties concerned, and that is exactly the kind of relationship Pennichuck strives to create through our public-private partnerships. Recently, PWSC has been pursuing opportunities to partner with New Hampshire communities to help them make necessary capital improvements. In some cases, the Company may also lease the existing assets of the water system. In this type of operating agreement, we assume responsibility for funding and carrying out any necessary repairs or capital improvements. Ultimately, these investments are recouped through modest increases in customer rates collected over time. Not surprisingly, public-private partnerships hold considerable appeal for municipalities, as they allow communities to retain control of their water system, yet outsource day-to-day operations and alleviate a significant financial burden.

As part of our effort to better position PWSC to aggressively pursue growth opportunities, Stephen J. Densberger was appointed President of this subsidiary early last year. With new management in place, we focused our attention on developing a new strategic marketing plan and determining how and where to expand the Company and increase revenues over the next five years.

Capitalizing on the opportunities to establish new public-private partnerships is certainly central to our overall growth strategy. However, these relationships are not entirely new for Pennichuck. In fact, 2004 marked our sixth successful year operating the municipal water system for the town of Hudson, NH. We are also in the fourth year of our operations and maintenance contract with the town of Salisbury, MA, which has firmly established our presence in the greater seacoast area surrounding the Massachusetts and New Hampshire border. Our progressive management and vision has kept your Company at the forefront of the emerging trend toward water utility consolidation, and we are actively pursuing new opportunities for public-private partnerships with other municipalities throughout the Northeast.

Smaller community systems represent another area of PWSC's business that continues to thrive. There are many privately owned water systems that were built to serve residential communities and condominium associations. In 2004, PWSC signed a purchase and sales agreement to acquire three separate systems, serving a population of approximately 3,500 people in the towns of Barnstead, Conway, and Middleton, NH. There are many similar systems in New Hampshire, as well as a large number of older systems that will soon be in need of rehabilitation and professional management, which we expect to contribute to our growth in the years ahead.

Expansion opportunities for PWSC are not limited to our home state. We have also identified some highly attractive opportunities to expand beyond our historic borders. Throughout New England, there are literally hundreds of small community systems serving condominium associations, as well as numerous smaller municipalities and resort communities that could benefit by outsourcing the management of their water system or being acquired by PWSC. We are currently evaluating a number of opportunities in Maine, Massachusetts and Vermont.

Over the last few years, PWSC has focused increasing attention on developing our business by serving as the certified operator for non-transient, non-community water systems. Typically, these include schools, daycare centers and apartment buildings that cater to 25 or more people on a daily basis, but are not served by municipal water systems. Stricter requirements for the monitoring and control of quality issues in these systems have created a need for ongoing analysis, planning and engineering, performed by highly qualified specialists.

PWSC has secured over 80 certified operator contracts to date, including three different school districts. In addition to the base revenues generated by the contracts themselves, we are also deriving significant incremental income from providing additional services at the customer's request. Once a customer establishes a relationship with PWSC to provide certified operations, they typically want us to solve any issue that arises regarding their water system. Whether it's performing repairs or communicating with customers, the owners would rather we take responsibility for everything. More than simply providing convenience and peace of mind for the owner, these requests also provide a significant amount of work for our maintenance technicians. Last year, income from small community systems represented a significant component of PWSC's total contract business revenues, a large portion of which was derived from ongoing service calls.

The Watertight Protection Program is another area that continues to provide increasing revenues for PWSC. Introduced in 2000, the Watertight Protection Plan helps protect consumers against a potentially disastrous break in the water line connecting their houses to Pennichuck's distribution system. Although they are not always aware of it, consumers own this section of the water service and are, therefore, responsible for its maintenance and repair. For a nominal fee, The Watertight Protection Plan guarantees that Pennichuck will take care of any repairs that may be needed. Consumer response to the Watertight Protection Plan has been very successful, with over 3,400 households now enrolled.

Continually working to strengthen our regulated water utilities.

Pennichuck's position as the pre-eminent publicly-held water utility in the region requires us to make ongoing capital investments to assure the safety and health of our customers and to meet the requirements of the Safe Drinking Water Act. We must also continue to maintain our aging infrastructure. Our scheduled maintenance and/or replacement program allows us to better manage tasks and expenditures while continuing to provide the best possible service to our customers.

Our largest capital improvement project of 2004 was involved with the continuing process of upgrading Pennichuck's water treatment plant serving our core system in Nashua. Built over 25 years ago, this facility was considered 'state-of-the-art.' Now, it needs significant improvements to remain in compliance with more rigorous federal surface water treatment standards that have changed dramatically during the same time period.

Once the upgrades are completed, the water treatment plant will have improved chemical treatment, improved sedimentation facilities, and a more robust filtration process with redundant safeguards. This investment enables Pennichuck to meet all existing and proposed regulations for water treatment. In late fall of 2004, we commenced construction on the first phase of this project, which is designed to help us maintain a more consistent temperature and quality of our raw water supply.

In 2004, we completed the rehabilitation of the Supply Pond and Harris Pond dams. All the dams in our core system meet the standards set forth by the Army Corps of Engineers and the New Hampshire Department of Environmental Services (NHDES).

Other significant improvements to our core system included boosting water pressure in sections of Nashua, and completing the design of a major water main replacement. This second project is being completed in conjunction with the City of Nashua's ongoing sewer separation project, which results in construction savings for both entities.

Significant moves to help improve customer service.

After more than a century operating in the heart of downtown Nashua, Pennichuck has moved its corporate headquarters to new offices in Merrimack, NH. In addition to providing the extra space needed to accommodate our growth, the new facility provides a modern work environment that was specifically designed to serve our needs. The move has been met with great enthusiasm, not only from our employees who enjoy a more productive work environment, but also our customers and visitors.

Finding new ways to improve customer service is a never-ending process at Pennichuck. Recently, we implemented a new appointment scheduling system to manage service calls more efficiently. The system analyzes the location of all scheduled appointments and automatically calculates the most efficient route, the ideal order, and the necessary time for our drivers to reach a given destination and perform the work.

Additional enhancements include a new phone system with automated messaging that allows us to answer customer questions and address their concerns 24/7. We are also implementing a new utility billing system that will enable Pennichuck customers to receive and pay their water bills online, saving them time and us money through significantly reduced processing costs.

Pennichuck Corporation

has paid uninterrupted dividends annually since 1856.

Developing our businesses through synergistic expansion.

In order to service new customers economically, Pennichuck needs to have staff and resources close to those customers. Therefore, we see our biggest growth opportunities coming from expanding our utility operations. There is great synergy between expanding our regulated and non-regulated businesses in unison. Acquiring utilities in new geographic areas will enable Pennichuck to establish a base from which to expand and capitalize on the many business opportunities in surrounding communities.

Five-Year Summary[1]

	2004	2003	2002	2001	2000
Consolidated Revenues (in 000's of dollars)	$ 23,025	$ 21,388	$ 23,422	$ 22,754	$ 23,671
Net Income (in 000's of dollars)	$ 1,820	$ 1,247	$ 2,341	$ 3,612	$ 3,683
Earnings Per Share - Basic	$ 0.76	$ 0.52	$ 0.98	$ 1.52	$ 1.56
Cash Dividends Declared					
Per Share Of Common Stock	$ 0.86	0.84	$ 0.813 (2)	$ 0.76	$ 0.73
Total Assets (in 000's of dollars)	$102,127	97,210	$ 90,982	$ 87,630	$ 82,880
Long-Term Debt (in 000's of dollars)	$ 26,835	27,247	$ 27,214	$ 27,420	$ 27,237
Weighted Average Shares Outstanding					
Basic (in 000's)	2,401	2,393	2,391	2,382	2,361
Book Value Per Share	$ 12.56	12.61	$ 12.72	$ 12.91	$ 12.17
Utility Plant Additions (in 000's of dollars)	$ 7,459	8,968	$ 8,413	$ 8,211	$ 7,735
Water Delivered (million gallons per day)	13.96	14.25	15.23	16.18	15.86
Mains (miles)	551	544	533	521	495
Services					
Core & Communities	24,042	23,670	23,348	22,808	22,380
Pittsfield Aqueduct	636	635	640	639	628
Pennichuck East	4,750	4,597	4,475	4,277	4,139
Meters	29,487	28,985	29,015	28,646	27,243
Hydrants	2,822	2,756	2,717	2,664	2,634
Rainfall (in inches)	41.88	48.99	43.07	30.64	57.62
Employees	88	82	81	80	72

(1) Prior years' per share amounts have been restated to reflect the four for three stock split in December 2001.
(2) Includes a one-time special dividend of $.033 per share.

Financial Highlights

Consolidated Revenues *(in 000's of dollars)*

2000	2001	2002	2003	2004
$23,671	$22,754	[illegible],427	$21,388	**$23,[illegible]**

Net Income *(in 000's of dollars)*

2000	2001	2002	2003	2004
$3,683	$3,612	$2,341	$1,247	**$1,820**

Total Assets *(in 000's of dollars)*

2000	2001	2002	2003	2004
$82,880	$87,[illegible]	$90,982	$97,210	**$102,127**

Basic Earnings Per Share

2000	2001	2002	2003	2004
$1.56	$1.52	$.98	$.52	**$.76**

Dividends Per Share

2000	2001	2002	2003	2004
$.73	$.76	$.813*	$.84	**$.86**

*Includes a one-time [illegible] of [illegible]3 per share.

PENNICHUCK CORPORATION
25 Manchester Street
Merrimack, New Hampshire 03054

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
Thursday, May 5, 2005

To Our Shareholders:

The Annual Meeting of Shareholders of Pennichuck Corporation ("Company") will be held at 9:00 a.m. on Thursday, May 5, 2005, at the Nashua Marriott Hotel, 2200 Southwood Drive, Nashua, New Hampshire for the following purposes:

(1) To elect two Directors;

(2) To ratify the appointment of PricewaterhouseCoopers LLP as independent accountants for the Company for the fiscal year ending December 31, 2005; and

(3) To transact such other business as may properly come before the meeting or any adjournments thereof.

The Board of Directors has fixed the close of business on March 24, 2005 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting and any postponements or adjournments of the meeting. Only holders of common stock of record at the close of business on that date will be entitled to notice of, and to vote at, the Annual Meeting or any adjournment thereof. Your attention is directed to the attached Proxy Statement.

By Order of the Board of Directors,

RICHARD A. SAMUELS, ESQ.
Secretary

Nashua, New Hampshire
April 1, 2005

WE URGE SHAREHOLDERS TO MARK, SIGN, DATE AND RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES. THE GIVING OF THE PROXY WILL NOT AFFECT YOUR RIGHTS TO VOTE AT THE MEETING IF THE PROXY IS REVOKED AS SET FORTH IN THE ACCOMPANYING PROXY STATEMENT.

PENNICHUCK CORPORATION
25 Manchester Street
Merrimack, New Hampshire 03054

PROXY STATEMENT
for
2005 ANNUAL MEETING OF SHAREHOLDERS
to be held on
May 5, 2005

About the Annual Meeting

Why have I received these materials?

This Proxy Statement and the accompanying proxy are being mailed to shareholders on or about April 4, 2005. The proxy is being solicited by the Board of Directors of Pennichuck Corporation (referred to throughout this Proxy Statement as "Pennichuck" or the "Company" or "we" or "our") in connection with our Annual Meeting of Shareholders that will take place on Thursday, May 5, 2005, at 9:00 a.m., and at any adjournment thereof. You are cordially invited to attend the Annual Meeting and are requested to vote on the proposals described in this Proxy Statement.

A copy of our Annual Report to Shareholders for the year ended December 31, 2004 has also been mailed to you.

Who is entitled to vote at the Annual Meeting?

Holders of shares of common stock of Pennichuck as of the close of business on March 24, 2005, the record date for the meeting, will be entitled to receive notice of and to vote at the Annual Meeting. As of the record date, 2,415,147 shares of our common stock were outstanding, each of which is entitled to one vote with respect to each matter to be voted on at the Annual Meeting.

How do I vote my shares at the Annual Meeting?

If you are a "record" shareholder of common stock (that is, if you hold common stock in your own name in Pennichuck's stock records maintained by our transfer agent, American Stock Transfer & Trust Company), you may complete and sign the accompanying proxy card and return it to Pennichuck or deliver it in person.

"Street name" shareholders of common stock (that is, shareholders who hold common stock through a broker or other nominee) who wish to vote at the Annual Meeting will need to obtain a proxy form from the institution that holds their shares and follow the voting instructions on such form.

Can I change my vote after I return my proxy card?

Yes. After you have submitted a proxy, you may change your vote at any time before the proxy is exercised by submitting a notice of revocation or a duly executed proxy bearing a later date. You may change your vote either by submitting a proxy card prior to the date of the Annual Meeting or by voting again prior to the time at which our voting facilities close. In any event, the later submitted vote will be recorded and the earlier vote revoked.

What constitutes a quorum for purposes of the Annual Meeting?

The presence at the Annual Meeting, in person or by proxy, of the holders of a majority of the voting power of all outstanding shares of common stock entitled to vote shall constitute a quorum for the transaction of business. Proxies marked as abstaining (including proxies containing broker non-votes) on any matter to be acted upon by shareholders will be treated as present at the meeting for purposes of determining a quorum but will not be counted as votes cast on such matters.

What vote is required to approve each proposal at the Annual Meeting?

The election of Directors at the Annual Meeting requires the affirmative vote of a majority of the votes cast at the Annual Meeting by shares represented in person or by proxy and entitled to vote on the proposal.

The ratification of the appointment of PricewaterhouseCoopers LLP at the Annual Meeting requires the affirmative vote of a majority of the votes cast at the Annual Meeting by shares represented in person or by proxy and entitled to vote on the proposal. A properly executed proxy marked "ABSTAIN" with respect to this proposal will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

If you hold your shares in "street name" through a broker or other nominee, shares represented by "broker non-votes" will be counted in determining whether there is a quorum but will not be counted as votes cast on such matters.

How does the Board recommend that I vote my shares?

Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board of Directors. The Board's recommendation is set forth together with the description of each proposal in this Proxy Statement. In summary, the Board recommends a vote:

- **FOR** the Directors' proposal to elect the two nominees as Directors of Pennichuck; and
- **FOR** the Directors' proposal to ratify the appointment of PricewaterhouseCoopers LLP as independent public accountants for Pennichuck for the year ending December 31, 2005.

With respect to any other matter that properly comes before the Annual Meeting, the proxy holders will vote as recommended by the Board of Directors or, if no recommendation is given, in their own discretion in the best interests of Pennichuck. At the date of this Proxy Statement, the Board of Directors had no knowledge of any business other than that described herein that would be presented for consideration at the Annual Meeting.

Who will bear the expense of soliciting proxies?

Pennichuck will bear the cost of soliciting proxies in the form enclosed. In addition to the solicitation by mail, proxies may be solicited personally or by telephone, facsimile or electronic transmission by our Directors, officers and employees. We may reimburse brokers holding common stock in their names or in the names of their nominees for their expenses in sending proxy materials to the beneficial owners of such common stock.

Is there any information that I should know about future annual meetings?

Shareholder Proposals

Any shareholder who intends to present a proposal for inclusion in the proxy statement for the 2006 Annual Meeting of Shareholders (the "2006 Annual Meeting") must deliver the proposal to the Company Secretary at 25 Manchester Street, Merrimack, New Hampshire 03054 in writing not later than December 5, 2005, if the proposal is submitted for inclusion in our proxy materials for that meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934. For any proposal that is not submitted for inclusion in next year's proxy statement, but is instead sought to be presented directly at the 2006 Annual Meeting, Securities and Exchange Commission rules permit management to vote proxies in its discretion if we: (1) receive notice of the proposal before the close of business on February 20, 2006, and advise shareowners in the 2006 proxy statement about the nature of the matter and how management intends to vote on such matter; or (2) do not receive notice of the proposal prior to the close of business on February 20, 2006. Notices of intention to present proposals at the 2006 Annual Meeting should be addressed to Corporate Secretary, Pennichuck Corporation, 25 Manchester Street, Merrimack, New Hampshire 03054.

CORPORATE GOVERNANCE,
BOARD AND COMMITTEE MEMBERSHIP

As of the date of this proxy statement, the Board of Directors consists of nine persons. Consistent with the Federal Sarbanes-Oxley Act and its implementing regulations, the revised listing standards of Nasdaq applicable to the Company, and recent trends in corporate governance generally, the Board has materially increased the proportion of Directors on the Board who satisfy the standards of an independent director under such rules and regulations. As of the date of this proxy statement, a substantial majority of the members of the Board of Directors have been determined to be independent, that is, each such person has not been and is not presently employed by or has any direct or indirect material relationship with the Company, and who thus satisfy the standards of independence evidenced in the revised Nasdaq listing standards and in the Sarbanes-Oxley Act and its implementing regulations.

The membership and functions of each such Committee, namely the Audit Committee, the Compensation and Benefits Committee, and the Corporate Governance and Nominating Committee, is discussed below.

Audit Committee

The Audit Committee is presently comprised of Messrs. Keller and Bolander, Ms. McCarthy and Ms. Chicoine. The Audit Committee is responsible for the appointment of the independent auditors, oversight of the integrity of the Company's financial statements, its compliance with legal and regulatory requirements, the qualifications and independence of its independent auditors, and other significant financial matters. The Board of Directors has determined in its business judgment that each of the members of the Audit Committee is independent under the applicable Nasdaq listing standards and the Sarbanes-Oxley Act and the rules promulgated thereunder. The Board of Directors has also determined in its business judgment that each of Robert P. Keller, Chairman, and Michelle L. Chicoine, are qualified as audit committee financial experts within the meaning of applicable regulations of the Securities and Exchange Commission. The Audit Committee met six times during fiscal 2004. The Audit Committee has adopted a charter governing its mission, membership, duties and responsibilities; a copy of the Charter for the Audit Committee can be accessed electronically at the Company's website at www.pennichuck.com.

Compensation and Benefits Committee

The Compensation and Benefits Committee, comprised of Messrs. Clough, Keller, Kreick and Bolander, met six times during 2004. The Compensation and Benefits Committee is charged generally (i) to establish the Company's executive compensation program, (ii) to monitor the operation of the Company's qualified noncontributory, defined benefit pension plan and the Company's 401k Savings Plan for Employees and the performance of the trustee and administrator of these Plans, and to recommend changes to the Board, as and when appropriate, and (iii) to administer the Company's 1995 and 2000 Stock Option Plans. The Board of Directors has determined in its business judgment that each of Messrs. Clough, Keller and

Bolander are independent under the applicable Nasdaq listing standards and the Sarbanes-Oxley Act and the rules promulgated thereunder.

Compensation Committee Interlocks and Insider Participation

With respect to John Kreick, who served as interim Chief Executive Officer of the Company for a portion of fiscal 2003 and thus does not satisfy the express independence standards set forth in such rules and regulations, the Board determined, in accordance with such rules and regulations and in its business judgment, that in view of the exceptional circumstances surrounding his service as an employee, his continued membership on the Compensation and Benefits Committee is in the best interests of the shareholders and the Company.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee, comprised of Mr. Bellavance, Ms. Chicoine and Ms. O'Neill, met six times during 2004. The Nominating Committee is charged generally with identifying individuals qualified to become members of the Board of Directors and recommending to the Board the director nominees for election at the next annual meeting of shareholders and/or for interim director appointments to the Board. The Committee also recommends to the Board the director candidates for each committee of the Board of Directors for appointment by the Board. The Board of Directors has determined in its business judgment that each of the members of the Nominating Committee is independent under the applicable Nasdaq listing standards and the Sarbanes-Oxley Act and the rules promulgated thereunder. The Nominating Committee has adopted a Charter governing its mission, membership and duties and responsibilities; a copy of the Charter for the Nominating Committee can be accessed electronically at the Company's website at www.pennichuck.com.

The Nominating Committee will consider nominees recommended by Company shareholders provided that the recommendations are made in accordance with the procedures set forth herein. In addition to considering candidates suggested by shareholders, the Nominating Committee considers candidates recommended by current directors, Company officers, employees and others. The Nominating Committee screens all candidates in the same manner regardless of the source of the recommendation. A shareholder who wishes to recommend a prospective nominee for the Board should notify the Company's Secretary or any member of the Nominating Committee, in writing at the Company's mailing address, with the name of the recommended candidate for Director together with whatever supporting material the shareholder considers appropriate. The Nominating Committee will consider whether to nominate such person in accordance with criteria set forth in the Charter, including:

- the potential nominee's experience;
- the independence of the potential nominee under applicable law and regulations;
- the ability of the potential nominee to represent the interests of the shareholders of the Company;
- the potential nominee's integrity, commitment and judgment;
- the potential nominee's availability to dedicate time and energy to the performance of his or her duties, taking into account the number of other boards

- he or she sits on in the context of the needs of the Board of Directors and the Company;
- the extent to which the potential nominee contributes to the overall expertise and skills appropriate for the Board of Directors; and
- such other factors relative to the overall composition of the Board as the Committee shall determine to be relevant at the time.

Contacting the Board of Directors

Any shareholder who desires to contact Pennichuck's Chairman or the other members of the Board of Directors may do so by writing to: Board of Directors, Pennichuck Corporation, 25 Manchester Street, Merrimack, New Hampshire 03054. Communications received in writing are distributed to the Chairman or other members of the Board as appropriate depending on the facts and circumstances outlined in the communication received. For example, if any complaints regarding accounting or auditing matters are received, they will be forwarded to the Chairman of the Audit Committee for review.

GENERAL DISCLOSURES

Security Ownership of Certain Beneficial Owners

To the best knowledge of Pennichuck, based solely upon a filing made with the Securities and Exchange Commission, the following is the only person(s) or entity to beneficially own more than 5% of the outstanding shares of our common stock as of December 31, 2004:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	% Common Stock Outstanding (2)
Banknorth Investment (1) Management Group P.O. Box 2499 West Brattleboro, Vermont 05303-2499	125,052	5.2%

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(1) The Banknorth Investment Management Group claims sole power to vote or to direct the vote over 43,850 shares; shared power to vote or to direct the vote over 81,202 shares; sole power to dispose or to direct the disposition of 59,141 shares; and shared power to dispose or to direct the disposition of 65,911 shares.

(2) Calculation of percentage is based upon a total of 2,413,617 shares outstanding and entitled to vote at December 31, 2004.

Security Ownership of Management

To the best knowledge of Pennichuck, the following table sets forth information as of March 24, 2005 with respect to outstanding shares of our common stock beneficially owned by each nominee and Director, the executive officers named in the Executive Compensation table below, and by all nominees, Directors and executive officers as a group:

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)(3)	% of Common Stock Out-standing (if more than 1%)(2)
Joseph A. Bellavance (3)	11,692	-
Steven F. Bolander	---	
Michelle L. Chicoine	---	
Charles E. Clough	24,353	-
Donald L. Correll (4)	30,100	1.2%
Stephen J. Densberger (3)(4)	36,589	1.4%
Bonalyn J. Hartley (3)(4)	18,693	-
Robert P. Keller	2,411	-
John R. Kreick (3)	740	-
Hannah M. McCarthy(3)	732	-
Martha E. O'Neill	12,200	-
Charles J. Staab(3)(4)	26,834	1.0%
Donald L. Ware (4)	24,560	-
All Directors and executive officers as a group (13 persons) (3)(4)	188,904	7.5%

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(1) Shares beneficially owned means shares over which a person exercises sole or shared voting or investment power or shares of which a person has the right to acquire beneficial ownership within 60 days of March 24, 2005. Unless otherwise noted, the individuals and group above have sole voting and investment power with respect to shares beneficially owned.

(2) Calculation of percentages is based upon a total of 2,527,241 shares, which total includes shares outstanding and entitled to vote of 2,415,147 plus 112,094 shares which have not been issued but which may be issued within 60 days of March 24, 2005 to named persons or group having rights to exercise stock options if such persons or group exercise such rights within such period.

(3) The individuals and group noted above have sole voting and investment power with respect to shares beneficially owned, except as stated in Note (4) below and except that voting and investment power is shared as follows: Mr. Bellavance – 3,965 shares, Mr. Densberger – 9,589 shares, Ms. Hartley – 693 shares, Mr. Kreick - 740 shares, Ms. McCarthy – 732 shares and Mr. Staab – 3,168 shares.

(4) Includes shares subject to unexercised stock options previously granted which officers have a right to acquire within 60 days of March 24, 2005. Mr. Correll holds options to acquire 30,000 shares, Mr. Densberger holds options to acquire 24,000 shares, Ms. Hartley holds options to acquire 18,000 shares, Mr. Staab holds options to acquire 17,000 shares, and Mr. Ware holds options to acquire 23,094 shares.

ELECTION OF DIRECTORS

General

Our Board of Directors is divided into three classes, each class serving for three years, with one class being elected each year. Our Bylaws give the Board of Directors the discretion to set from time to time the number of directors constituting the entire Board, provided that the Company has at least three and not more than thirteen directors. The Board has determined that the Board shall consist of nine directors, the number now serving.

Director Charles Clough has informed the Board of Directors that he will retire as of the date of the Annual Meeting. Our Bylaws authorize the Board to appoint a person to fill the vacancy that will be created by Mr. Clough's retirement. The Board expects that it will fill the vacancy during the next year. The term of a Director appointed by the Board expires at the next annual meeting of shareholders following such appointment. The Board intends to appoint Mr. Clough to the non-voting position of Senior Director, which is established by our Bylaws.

The Board has nominated Donald L. Correll and Hannah M. McCarthy, each an incumbent director, for election to three-year terms expiring at the Annual Meeting of Shareholders in 2008.

The Board of Directors recommends a vote **FOR** the election of the two nominees as Directors of the Company.

Information as to Nominees and Continuing Directors

Unless otherwise directed in the proxy, each proxy executed and returned by a shareholder will be voted FOR the election of the two nominees. If any person named as nominee should be unable or unwilling to stand for election at the time of the Annual Meeting, the proxies will nominate and vote for a replacement nominee or nominees recommended by the Board of Directors. All nominees have indicated to the Company their willingness to be nominated as Directors and to serve as Directors if elected. At this time, the Board of Directors knows of no reason why any of the nominees listed below would not be able to serve as a Director if elected.

The following table sets forth information concerning the persons nominated to serve on the Board of Directors and concerning the other Directors continuing in office beyond the Annual Meeting.

Nominees (1)	Age	Director of Company Since	Year Present Term Will Expire	Position With Company
Donald L. Correll	54	2003	2005	President and Chief Executive Officer
Hannah M. McCarthy	58	1994	2005	---
Continuing Directors (1)				
Joseph A. Bellavance	65	1983	2006	---
Steven F. Bolander	60	2004	2006	---
Robert P. Keller	67	1983	2006	---
Michelle L. Chicoine	49	2004	2007	---
John R. Kreick	60	1998	2007	Chairman
Martha E. O'Neill	47	1998	2007	---

(1) All nominees and continuing Directors are also Directors of the Company's wholly owned subsidiaries, Pennichuck Water Works, Inc. and The Southwood Corporation. Mr. Correll is also a director of Pennichuck Water Service Corporation, Pennichuck East Utility, Inc. and Pittsfield Aqueduct Company, Inc.

The business experience of each of the above nominees, continuing Directors and of the executive officers of the Company during the last five years, and certain other pertinent information, is as follows:

Nominees for Election at this Annual Meeting

Donald L. Correll - Mr. Correll was appointed President and Chief Executive Officer of Pennichuck Corporation in August 2003. He received his Bachelor of Science degree from The Pennsylvania State University and a Masters in Business Administration degree from New York University Graduate School of Business. Mr. Correll served from 1991 to 2001 as Chairman, Chief Executive Officer and President of United Water Resources, then one of the largest investor owned water utilities in the United States, until its sale to Suez. He currently serves as a Director of Interchange Financial Services Corporation and a Commissioner of the New Jersey Water Supply Authority.

Hannah M. McCarthy - Ms. McCarthy is President of Daniel Webster College in Nashua, New Hampshire, a position that she has held since 1980. She earned her B.A. at

Simmons College, and has done graduate work at Rivier College and New Hampshire College. Ms. McCarthy serves as a Director of the New Hampshire Post-Secondary Education Commission; the New Hampshire College and University Council; the Boys & Girls Club of Nashua; and, the New Hampshire Charitable Foundation.

Directors with Terms Expiring in 2006

Joseph A. Bellavance - Mr. Bellavance is President of Bellavance Beverage Company, Inc. and President of Bellavance Realty Corporation, both of Nashua. He is also a joint owner/manager of PROSIT, LLC, which is principally involved with the ownership and management of real estate. Mr. Bellavance received his Bachelor of Science degree in Business Administration from the University of New Hampshire. He is a Director of the New Hampshire Wholesale Beverage Association, "New Hampshire The Beautiful," and a member of the American Legion and the Nashua Rotary Club.

Steven F. Bolander - Mr. Bolander is Dean of the University of New Hampshire's Whittemore School of Business and Economics, a position he has held since July 2000. He holds a Doctor of Business Administration degree from Kent State University, a Master of Business Administration degree from the University of Colorado, and a Bachelor of Science in Chemistry degree from Iowa Wesleyan College. Mr. Bolander was previously affiliated with Colorado State University and Baldwin-Wallace College.

Robert P. Keller - Mr. Keller is a Certified Public Accountant. In November 2003, he became managing director of Triumph Investment Fund, LP (a community bank private equity fund) located in Bedford, New Hampshire. From March 2002 until May 2003, he was Chairman and Chief Executive Officer of InStar Services Group, Inc. (a nationwide provider of insurance restorations and reconstruction services), headquartered in Fort Worth, Texas. From June 1995 to June 2001, he served as President and Chief Executive Officer of Dartmouth Capital Group, Inc. and President and Chief Executive Officer of Eldorado Bancshares, Inc. (bank holding companies); and as Chairman, President and Chief Executive Officer of Eldorado Bank of Laguna Hills, California and Chairman and Chief Executive Officer of Antelope Valley Bank of Lancaster, California. In addition, since September 2002 he has served as Chairman of the Board of Directors of Security Business Bank of San Diego.

Directors with Terms Expiring in 2007

Michelle L. Chicoine - Ms. Chicoine is the Chief Financial Officer at St. Paul's School, a private preparatory high school located in Concord, New Hampshire. She is a graduate of the University of Rhode Island and a Certified Public Accountant. She holds a Master of Business Administration Degree from Southern New Hampshire University. Ms. Chicoine recently served as Executive Vice President and Director of EnergyNorth, Inc.; she also served as President and Chief Operating Officer of EnergyNorth Natural Gas, Inc. and as Vice Chairman and Chief Executive Officer of EnergyNorth Propane, Inc. Ms. Chicoine is a former Trustee of the University System of New Hampshire, and has served as the President of the New Hampshire Society of Certified Public Accountants and the Chairman of the Greater Manchester Family YMCA.

John R. Kreick – Dr. Kreick served as interim Chief Executive Officer of the Company from April 2, 2003 until August 4, 2003. He previously served as President of Sanders Associates and as a Vice President of the Lockheed Martin Corporation from January 1988 until March 1998. Dr. Kreick received his Bachelor of Science degree in physics from the University of Michigan in 1965. As a Rackman graduate fellow, he worked at the University's Space Physics Research Laboratory and received his Masters of Science degree in physics in 1966. He received his Ph.D. in theoretical physics from the University of Michigan in 1969 and he holds eight patents in infrared and electro-optical technology. Dr. Kreick is Director of EMS Technology; a Director of Navigator Technology Ventures; a Trustee of Rivier College; and a Trustee of Southern New Hampshire Regional Medical Center. He has also served on numerous Department of Defense panels and committees. He has been the Chairman of the Board of Draper Labs since October 2001. In 1993, Dr. Kreick received the Electronic Warfare Association's highest award – the Gold Medal of Electronic Warfare and is a recipient of Aviation Week magazine's Aerospace Laurels Award for his long-term contributions to electronic warfare.

Martha E. O'Neill – Ms. O'Neill has been practicing as an attorney with the law firm of Clancy & O'Neill, P. A. in Nashua since 1982. She is a graduate of Wellesley College and Georgetown University Law Center. Ms. O'Neill serves on the Rivier College Board of Trustees, Mary A. Sweeney Home Board of Trustees, Charles H. Nutt Surgical Hospital Board, the Boys & Girls Club of Greater Nashua, Inc. Charitable Foundation Board of Trustees, the Currier Museum of Art Advisory Council and the Southern New Hampshire Medical Center Board of Trustees.

Executive Officers

Stephen J. Densberger - Mr. Densberger is Executive Vice President of the Company and has been affiliated with the Company since 1974. Mr. Densberger was the Treasurer of the Company from 1978 to 1983. Mr. Densberger serves as President and a director of Pennichuck Water Service Corporation. He is also a director of Pittsfield Aqueduct Company, Inc. and of Pennichuck East Utility, Inc. Mr. Densberger is a graduate of Assumption College and he holds a Master of Business Administration degree from the Whittemore School of Business and Economics of the University of New Hampshire. He is an active member and past President of the New Hampshire Water Works Association and past President of the New England Water Works Association. He is a Councilor on the N. H. Department of Environmental Services Water Council and a former alderman in the City of Nashua. Mr. Densberger is 54 years old.

Michael C.J. Fallon - Mr. Fallon joined Southwood Corporation as its President in January 2005. Mr. Fallon has over 30 years of experience in the real estate industry and most recently operated Fallon and Associates, LLC, a Hancock, New Hampshire based consulting organization specializing in distressed and surplus property redevelopments and strategic asset management for corporate and institutional portfolios. In 2003 and 2004, Mr. Fallon was a consultant to Southwood. Mr. Fallon served as President of United Properties Group, a wholly-owned subsidiary of United Water Resources, from 1993 to 2001, and served as Vice President of the United Water Management and Service Company, also a wholly owned subsidiary of United Water Resources, from 1998 to 2001. As an officer of United Properties Group and

United Water Management and Service Company, Mr. Fallon reported to Mr. Correll, who was Chairman, Chief Executive Officer and President of United Water Resources. Prior to joining United Properties, Mr. Fallon was Senior Vice President of Cushman and Wakefield, Inc., in New York City, where he was responsible for the firm's national corporate consulting practice as well as managing the company's Realty Advisor group. Mr. Fallon is 58 years old.

Bonalyn J. Hartley - Ms. Hartley has been with the Company since 1979 and was elected Vice President-Administration of the Company, Pennichuck Water Works, Inc. and The Southwood Corporation in 2001. Formerly, she served as Vice President – Controller for the Company and its subsidiaries. She is also Vice President - Administration and a director of Pennichuck Water Service Corporation, Pennichuck East Utility, Inc. and Pittsfield Aqueduct Company, Inc. She is a graduate of Rivier College with a Bachelor of Science Degree in Business Management. Ms. Hartley serves as a Trustee and Chairman of the Southern New Hampshire Medical Center and as a Trustee and Chairman of the Community Hospice Home Endowment Committee. She is also a director of the New England Chapter of the National Association of Water Companies and a member of the New England Water Works Association. She is a joint owner of Lakeview Antique Center, LLC. Ms. Hartley is 60 years old.

William D. Patterson - Mr. Patterson was appointed Vice President and Chief Financial Officer of the Company and its subsidiaries in January 2005. Mr. Patterson earned his Bachelor of Science Degree in Civil Engineering from Princeton University and an MBA in Finance and Accounting from the University of Chicago Graduate School of Business in 1978. Most recently, he founded and served as President of EnSTAR Management Corporation and also served as Executive Advisor to Concentric Energy Advisors in Marlborough, MA, both firms providing independent corporate finance advisory and consulting services to utility and energy companies. He is the past CFO of Enermetrix, a Maynard, MA based early stage software company focused in the retail energy industry, and previously served for over 15 years as a senior investment banker at E.F. Hutton, Shearson Lehman and Smith Barney, where he headed the firm's corporate finance practice for utility companies. Mr. Patterson is 50 years old.

Donald L. Ware - Mr. Ware is Vice President of Engineering for the Company and Senior Vice President, Operations and Chief Engineer for Pennichuck Water Works, Inc. He is also a Vice President and director of Pennichuck Water Service Corporation, Pennichuck East Utility, Inc. and Pittsfield Aqueduct Company, Inc. He joined the Company in April 1995. Prior to joining the Company, Mr. Ware was the general manager of the Augusta Water District in Augusta, Maine. He holds a Bachelor of Science degree in Civil Engineering from Bucknell University and is a licensed professional engineer in New Hampshire, Massachusetts and Maine. He also holds a Masters in Business Administration from the Whittemore Business School at the University of New Hampshire. Mr. Ware is 48 years old.

Director Attendance

During the year ended December 31, 2004, the Board of Directors of the Company held ten meetings. Each Director nominee and continuing Director attended 75% or more of the total of the number of meetings of the Board of Directors and the number of meetings of all committees of the Board on which he or she served. As a general matter, members of the Board of Directors are expected to attend the Company's annual meetings. All members of the Board and nominees for election to the Board were present at Pennichuck's 2004 annual meeting of shareholders.

Compensation of Directors

Each of the non-executive members of the Board of Directors of the Company currently receives a fee of $8,000 annually. Additionally, each non-executive Board member receives $600 for each Board and committee meeting they attend in person and $250 for each Board and committee meeting they attend by telephone participation. Each Committee chairman also receives an additional $1,500 annually. The Chairman of the Board of Directors receives an additional fee of $4,000 annually. Directors who are also salaried employees of the Company do not receive any separate compensation for services as a Director of the Company or of its subsidiaries.

REPORT OF THE AUDIT COMMITTEE

The principal purposes of the Audit Committee are to assist the Board of Directors in fulfilling its oversight responsibilities, relating to:

- the integrity of the Company's financial statements,
- the Company's compliance with legal and regulatory requirements,
- the independent auditor's qualifications and independence, and
- the performance of the Company's independent auditors.

The Board of Directors, in its business judgment, has determined that all members of the Audit Committee, named below, are "independent" as required by applicable Nasdaq listing standards and the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. The Audit Committee acts under a written charter adopted and approved by the Board of Directors; the Charter was amended and restated in March 2004.

The Audit Committee meets with management periodically to consider the adequacy of the Company's system of internal controls and the objectivity of its financial reporting. The Committee discusses these matters with the Company's independent auditors and with appropriate Company financial personnel. The Audit Committee appoints the independent auditors and reviews periodically their performance and independence from management.

Management has primary responsibility for the preparation, presentation and integrity of the Company's financial statements and the overall reporting process, including the Company's system of internal controls.

The independent auditors audit the annual financial statements prepared by management, express an opinion as to whether those financial statements fairly present the financial position, results of operations and cash flows of the Company in conformity with generally accepted accounting principles, and discuss with the Audit Committee any issues they believe should be raised with the Committee.

This year, the Committee reviewed the Company's audited financial statements with management, including a discussion of the quality of the accounting principles applied and significant judgments made affecting those financial statements. Management has represented to the Committee that the financial statements were prepared in accordance with generally accepted accounting principles. The Committee also met with PricewaterhouseCoopers LLP, the Company's independent auditors for the fiscal year ended December 31, 2004, to discuss the firm's judgment of the quality of those principles as applied. We have also discussed such matters amongst the Committee members themselves.

The Committee has received and discussed with PricewaterhouseCoopers LLP the written disclosure and the letter required by Independence Standards Board Standard No. 1 (*Independence Discussions with Audit Committees*). These items relate to that firm's independence from the Company. The Committee has also discussed with PricewaterhouseCoopers LLP any matters required to be discussed by Statement on Auditing Standards No. 61 (*Communication with Audit Committees*).

Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, for filing with the Securities and Exchange Commission.

Robert P. Keller (Chairman)
Steven F. Bolander
Michelle L. Chicoine
Hannah M. McCarthy

The foregoing "Report of the Audit Committee" shall not be deemed incorporated by reference by any general statement incorporating this Proxy Statement into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and Directors, and beneficial owners of more than ten percent of the Company's common stock, to file reports of ownership and changes in ownership of such common stock with the Securities and Exchange Commission ("SEC"). Generally, these persons must file such reports at the time they first become subject to Section 16(a) reporting, and thereafter following a change in ownership, if any. Officers, Directors and such greater than ten percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) reports they file. The Company is required by SEC regulation to identify in its proxy statement those individuals for whom one of the referenced reports was not filed on a timely basis during the most recent fiscal year or prior fiscal years.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations from each of such persons that no other reports were required, the Company believes that during the fiscal year ended December 31, 2004, all Section 16(a) filing requirements applicable to its officers, Directors and greater than ten percent beneficial owners were complied with on a timely basis.

EXECUTIVE COMPENSATION

Summary of Cash and Certain Other Compensation

Executive Officers

The following table sets forth information for the fiscal years ended December 31, 2004, 2003 and 2002 concerning the compensation paid to the Chief Executive Officer and the other executive officers ("Named Executive Officers") for services performed in all capacities.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year End Dec 31	Annual Compensation Salary	Bonus (1)	Other (2)	Long-Term Compensation Securities Underlying Options (3)	All Other Compensation (4)
Donald L. Correll	2004	$250,000	$ 0	$56,808	5,000	$14,670
President and Chief	2003	100,000	23,630	19,669	30,000	10,828
Executive Officer						
Stephen J. Densberger,	2004	133,868	0	--	3,500	6,337
Executive Vice	2003	131,346	0	--	4,000	6,261
President	2002	124,999	0	--	2,500	5,809
Charles J. Staab,	2004	119,808	0	--	2,000	5,533
Vice President,	2003	120,960	0	--	2,500	5,430
Treasurer and Chief	2002	115,115	0	--	2,500	5,271
Financial Officer						
Bonalyn J. Hartley,	2004	111,176	0	--	2,500	4,213
Vice President,	2003	112,245	0	--	2,000	4,245
Administration	2002	104,844	0	--	2,500	4,654
Donald L. Ware,	2004	133,154	0	--	4,000	5,169
Senior Vice President,	2003	123,227	0	--	4,000	4,872
Operations	2002	106,900	0	--	2,500	4,423

(1) Bonus awards for services rendered during such year and paid in the following year.

(2) No information is given with respect to other compensation paid to or distributed in kind where such compensation did not exceed the lesser of $50,000 or 10% of the total reported salary and bonus for the named officer. Amounts shown represent perquisites provided to named executive officer valued at the incremental cost to Pennichuck, which has been calculated for these purposes based on Pennichuck's out of pocket expenditures. For the fiscal years ended December 31, 2004 and 2003, for Mr. Correll, pursuant to his employment agreement, includes relocation assistance in the amounts of $36,492 and $16,859, respectively.

(3) In conjunction with the commencement of his employment with the Company in 2003, Mr. Correll received a grant of 30,000 options to acquire shares of common stock. This option grant vests over a three-year period, with one third or 10,000 options vesting at the end of calendar year 2003 and an additional one third or 10,000 options vesting at the end of each calendar year thereafter.

(4) For the fiscal years ended December 31, 2004 and 2003, for Mr. Correll includes (i) the cost to the Company for the purchase of a term life insurance policy ($8,520 and $8,520) and (ii) Company contributions to the Elective Savings Plan for Employees of Pennichuck Corporation ($6,150 and $2,308). For fiscal years ended December 31, 2004, 2003 and 2002, respectively, for Mr. Densberger includes (i) the cost to the Company for the purchase of a term life insurance policy ($2,321, $2,321 and $1,304) and (ii) Company contributions to the Elective Savings Plan for Employees of Pennichuck Corporation ($4,016, $3,940 and $4,505). For fiscal years ended December 31, 2004, 2003 and 2002, respectively, for Mr. Staab includes (i) the cost to the Company for the purchase of a term life insurance policy ($1,870, $1,870 and $1,261) and (ii) Company contributions to the Elective Savings Plan for Employees of Pennichuck Corporation ($3,663, $3,560 and $4,010). For fiscal years ended December 31, 2004, 2003 and 2002, respectively, for Ms. Hartley includes (i) the cost to the Company for the purchase of a whole life insurance policy ($878, $878 and $930) and (ii) Company contributions to the Elective Savings Plan for Employees of Pennichuck Corporation ($3,335, $3,367 and $3,724). For fiscal years ended December 31, 2004, 2003 and 2002, respectively, for Mr. Ware includes (i) the cost to the Company for the purchase of a term life insurance policy ($1,175, $1,175 and $638) and (ii) Company contributions to the Elective Savings Plan for Employees of Pennichuck Corporation ($3,994, $3,697 and $3,785).

Stock Option Grants During the Fiscal Year Ended December 31, 2004

The following table sets forth information concerning the grant of stock options to acquire shares of the Company's common stock under the 2000 Stock Option Plan to the Chief Executive Officer and the Named Executive Officers during the fiscal year ended December 31, 2004.

	Individual Grants (1)				Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation for Option Term (2)	
Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Share)	Expiration Date	5%	10%
Donald L. Correll	5,000	20%	$28.32	Jan. 23, 2014	$89,051	$225,674
Stephen J. Densberger	3,500	14%	$28.32	Jan. 23, 2014	$62,336	$157,972
Charles J. Staab	2,000	8%	$28.32	Jan. 23, 2014	$35,621	$ 90,270
Bonalyn J. Hartley	2,500	10%	$28.32	Jan. 23, 2014	$44,526	$112,837
Donald L. Ware	4,000	16%	$28.32	Jan. 23, 2014	$71,241	$180,539

(1) The exercise price of the options granted is equal to the fair market value of the Company's common stock on the date of grant. The options are exercisable on the date of the grant and expire ten years thereafter.

(2) Potential realizable values are calculated on the assumption that the market value of the underlying stock increases from the date of grant at an annualized rate of return of 5% and 10% compounded annually for the ten-year term of the option and that the option is exercised and sold on the last day of its term for the appreciated stock price.

Stock Option Exercises and Fiscal Year End Values

The following table sets forth information concerning the exercise of stock options by the Chief Executive Officer and the named Executive Officers during the fiscal year ended December 31, 2004, and the number and the fiscal year end value of unexercised options held by the Chief Executive Officer and the Named Executive Officers at December 31, 2004. The value realized on the shares acquired on exercise is the difference between the exercise price and the fair market value on the date of exercise. The value of unexercised, in-the-money options at December 31, 2004, is the difference between its exercise price and the fair market value of the underlying stock on such date. These values have not been, and may never be, realized. The underlying options have not been, and may never be, exercised; and actual gains, if any, on exercise will depend on the value of Company common stock on the date of exercise.

			Number Of Unexercised Options At Fiscal Year End		Value of Unexercised In-the-Money Options At Fiscal Year End (1)	
Name	Shares Acquired On Exercise	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Donald L. Correll	-	-	25,000	10,000	$40,000	$20,000
Stephen J. Densberger	-	-	20,000	-0-	$54,940	-0-
Charles J. Staab	-	-	17,000	-0-	$54,940	-0-
Bonalyn J. Hartley	-	-	15,000	-0-	$34,240	-0-
Donald L. Ware	-	-	18,594	-0-	$35,213	-0-

(1) The closing price of the Company's common stock as reported on the Nasdaq National Market System on December 31, 2004 was $26.10 per share and is used in calculating the value of unexercised options.

Executive Officer Benefits

The Company's executive officers are eligible to participate in benefit programs offered to all salaried employees, including: qualified pension plan, 401(k) Elective Savings Plan (including Company match), health and dental coverage, Company-paid term life insurance, disability coverage and paid vacation. In addition, certain of the executive officers are provided with either a leased or Company-owned automobile for business use. In connection with their business duties, Messrs. Correll and Densberger are also provided with membership in a local club. Severance benefits provided to Company executive officers listed in the Summary Compensation Table are described below in the section entitled "Executive Agreements."

Pension Plan

The Company maintains a qualified, non-contributory defined-benefit pension plan for all qualifying employees of the Company and its subsidiaries. In general, the pension plan provides for monthly payments to or on behalf of each covered employee based upon such employee's career averaged annual compensation prior to retirement and the employee's covered years of service. Directors who are not employees are not eligible to participate in the plan. The pension plan includes optional early retirement benefits, provided a participant has attained age 55 and has completed ten or more years of covered service. Under the pension plan, the Company makes an annual contribution for the benefit of eligible employees computed on an actuarial basis. All contributions to the fund and expenses of administering the fund are paid by the Company.

The following table shows the estimated annual benefits payable under the pension plan for specified averaged career salaries and covered years of service. Benefits shown in the table are computed on a straight life annuity basis and are not subject to any deduction for Social Security or other offset amounts.

Annual Pension Benefit Based on Years of Service (1)

	Estimated Annual Pension Benefit Based on Service of					
Career Averaged Salary	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
$ 60,000	$ 7,000	$14,000	$18,800	$23,300	$27,800	$32,700
80,000	9,300	18,700	24,900	31,000	37,300	43,700
100,000	11,700	23,500	31,200	38,900	46,700	54,700
120,000	14,000	28,000	37,300	46,900	56,100	65,400
140,000	16,300	32,700	43,700	54,500	65,100	75,300
160,000	18,700	37,300	49,700	61,700	73,000	83,500
180,000	21,000	42,000	55,500	67,900	79,700	91,500
200,000	23,300	46,700	60,000	73,200	86,400	99,600

(1) Calculation of Normal Retirement Benefit at age 65.

Years of service at December 31, 2004 and 2004 compensation covered by the pension plan, for the Chief Executive Officer and the Named Executive Officers: Mr. Correll, 1 year, $273,630; Mr. Densberger, 30 years, $133,868; Mr. Staab, 21 years, $119,808; Ms. Hartley, 26 years, $111,176; and Mr. Ware, 9 years, $133,154. Pursuant to the provisions of the pension plan, these covered compensation figures represent total cash compensation received during 2004 (including salary plus bonus for services rendered during 2003) and therefore may differ from the salary reported in the Cash Compensation Table set forth above.

Executive Agreements

Donald L. Correll. In August 2003, the Company and Donald L. Correll entered into an Employment Agreement pursuant to which Mr. Correll presently serves as President and Chief Executive Officer of the Company and its subsidiaries, Pennichuck Water Works, Inc., Pennichuck East Utility, Inc. and Pittsfield Aqueduct Company, Inc. Mr. Correll's Employment Agreement provides for an initial three-year term; commencing on the second anniversary thereof, and each annual anniversary thereafter, this Agreement may be extended by the Board of Directors for a subsequent two-year term. The Employment Agreement provides for the payment of a base salary as well as participation in any bonus and incentive compensation, stock option and employee benefit programs available to the Company's executive officers, together with life insurance in the amount of four (4) times his annual salary. Pursuant to the Agreement, in connection with his business duties, the Company provides Mr. Correll with (i) a leased automobile, and (ii) membership in a local club. Further, in lieu of medical insurance coverage normally provided to the Company's executive officers and given that Mr. Correll receives such coverage from a previous employer, under the Agreement he also receives (a) a monthly payment of $150 to compensate him for the premium due on his existing plan, (b) the amount of any co-pay and deductible he may be required to pay under such plan, as well as (c) reimbursement for the cost of an annual physical examination. Pursuant to the Agreement, the Company also provides Mr. Correll with (i) short term disability coverage encompassing up to sixty percent (60%) of his then base salary for a period up to 26 weeks, as well as (ii) long term disability coverage encompassing up to sixty percent (60%) of his then base salary, subject to a maximum benefit of six thousand dollars ($6,000) per month. In connection with commencement of his employment pursuant to the Agreement, Mr. Correll (aa) received a grant of non qualified options to acquire 30,000 shares of common stock under the Company's stock option plans, with an exercise price equal to the fair market value of the stock on the date of grant, said options vesting in one third increments at the end of calendar year 2003 and each calendar year end thereafter, and (bb) is also entitled to receive relocation assistance from the Company in an amount not to exceed sixty thousand dollars ($60,000) on an after-tax cost basis. See "Executive Compensation – Summary of Cash and Certain Other Compensation" above.

In the event the Company terminates Mr. Correll's employment other than for "cause," he will be entitled to a severance payment equal to the greater of (i) his then current salary and fringe benefits for the remaining term of the Agreement, or (ii) his then current salary and fringe benefits for a twelve-month period. For purposes of Mr. Correll's Agreement, "cause" would exist if Mr. Correll is subject to a finding by the Board of Directors that (a) with respect to his actions or failure to act concerning the Company and its affairs, he has been personally dishonest, engaged in willful misconduct or fraud or breached a fiduciary duty, or (b) he has intentionally failed to perform the duties reasonably assigned to him. In the event Mr. Correll's employment is terminated by the Company within twelve (12) months of an event constituting a "change of control," he will be entitled to a severance payment equal to the greater of (i) his then current salary and fringe benefits for the remaining term of the Agreement, or (ii) his then current salary and fringe benefits for a twenty-four (24) month period; in such case, all of his outstanding stock options shall vest immediately. A "change of control" is defined as (i) an acquisition by any individual, entity or group of beneficial ownership of 51% or more of the voting power of the Company's securities entitled to vote for the election of directors; (ii) a merger or consolidation which results in the Company's then existing shareholders holding less than 50% of the outstanding voting stock of the surviving corporation in the merger; (iii) a change in the composition of a majority of the Company's Board of Directors which is not supported by the then current Board of Directors; or (iv) the sale or other transfer of all or substantially all of the assets of the Company to a non-affiliated third party; provided however that the sale, whether voluntary or pursuant to the exercise of the power of eminent domain, of one or more of the Company's water utilities only, but not of all of the assets of the Company or its subsidiaries, does not constitute a change of control under this Agreement.

Charles J. Staab. Mr. Staab retired from employment with Pennichuck and resigned from his positions as Treasurer and Chief Financial Officer of Pennichuck and its subsidiaries effective as of January 31, 2005. Pursuant to an Agreement effective as of February 14, 2005, Mr. Staab and Pennichuck agreed that: (1) he will be paid his regular salary through his last date of employment, together with a payment for accrued and unused vacation time, minus all appropriate withholdings and authorized deductions; (2) he will receive a lump sum severance payment in the amount of $110,592.00, equivalent to forty-eight (48) weeks of current salary, minus all appropriate state and federal withholdings and qualified contributions to the Elective Savings Plan for Employees of Pennichuck Corporation; (3) Pennichuck will pay the cost of the monthly premium for individual plan coverage for Mr. Staab under the group health plan that Pennichuck provides for eligible retirees, and once he reaches ages 65 and is eligible for Medicare, the cost of the monthly premium for individual Medicomp coverage up to the "maximum allowable benefit" as that term is defined in Pennichuck's Early Retirement Medical Benefit Policy, as amended (the "early retirement benefit"); Pennichuck will pay the early retirement benefit until the earlier of (i) Mr. Staab becoming ineligible under the Policy for whatever reason, or (ii) Pennichuck ceasing to offer group health coverage to early retirees; (4) Pennichuck will pay the cost of premiums for continuation coverage for Mr. Staab under Pennichuck's dental insurance plan, and for his eligible family members under the Pennichuck group medical and dental insurance plans, both for the 12-month period immediately following his last day of employment; (5) the Company will provide Mr. Staab with an outplacement services program for a 6-month period following his last date of employment; and (6) Mr. Staab will be allowed to exercise any outstanding options to acquire Pennichuck common stock for a 90 day period following his last date of employment.

In consideration for and as a material inducement to Pennichuck entering into the Agreement, Mr. Staab: (a) executed a general release and discharge to Pennichuck and each of its subsidiaries, affiliates, successors, assigns, directors, officers and employees from any and all causes of actions, suits and/or claims for damages of any type arising or which may have existed on or before the date he signed the Agreement; including, but not limited to rights under federal or state laws prohibiting discrimination in employment including rights under the Federal Age Discrimination in Employment Act; (b) agreed not to institute any lawsuit or claim against Pennichuck or its related parties with respect to any cause of action or claim of any kind arising or which may have existed on or before the date of the Agreement; (c) agreed to refrain from making any disparaging or derogatory comments about Pennichuck or its related parties except his right to provide information that is otherwise protected under federal and state statutes including but not limited to the Sarbanes-Oxley Act of 2002; (d) agreed to return all documents and records relating to Pennichuck, except for certain computer and communications devices previously provided to him; (e) agreed not to disclose to anyone at any time any confidential or proprietary information of Pennichuck, except that this provision is not intended to impair his rights to provide information that is otherwise protected under federal and state statutes, including but not limited to the Sarbanes-Oxley Act of 2002; (f) agreed, during the 12-month period immediately following the separation date, to cooperate and make himself available for discussions and meetings with representatives of Pennichuck for up to 160 hours in order to provide services relating to tax, regulatory, financing, transitional and related issues, as may be requested, for which he will be paid on an hourly and/or daily rate for such services; and, (g) agreed, during the 12-month period following his last date of employment, to cooperate with Pennichuck and to make himself available as a witness for any legal or regulatory proceeding involving Pennichuck or any of its officers and directors, for which he will receive an hourly rate plus reasonable out-of-pocket expenses.

Change of Control Agreements. Messrs. Densberger and Ware, and Ms. Hartley are each party to a Change of Control Agreement with the Company intended to ensure continuity in the management of the Company in the event of a 'change of control' of the Company. Each such agreement provides for a continuously renewing three-year term and for the payment of the respective executive's then current base salary and continuation of health and life insurance benefits for a twelve month period upon the occurrence of both (a) a change of control and (b) a termination of employment or substantial reduction or alteration in the executive's responsibility, authority or compensation for reasons other than good cause. For purposes of these agreements, a change of control is deemed to have occurred if (i) any person or group acting in concert acquires fifty-one percent (51%) or more of the Company's voting power, (ii) a merger or share exchange occurs which results in the Company's shareholders holding less than fifty percent (50%) of the total voting power after such transaction, (iii) there is a change in the majority of the Board of Directors of the Company other than by nominations approved by the then current Board of Directors, or (iv) there shall be a sale or other transfer of all or substantially all of the assets of the Company or its subsidiaries to a non-affiliated party.

Certain Relationships and Related Party Transactions

The Company entered into a lease arrangement with HECOP III, LLC in April 2004 for certain office space located in Merrimack, New Hampshire to serve as the Company's headquarters. The Company's wholly-owned subsidiary, the Southwood Corporation, holds a fifty percent (50%) ownership interest in HECOP III, LLC; the remaining ownership interests are held by John P. Stabile II, who is also the holder of ownership interests in several other joint ventures with the Southwood Corporation. The terms of this lease arrangement were reviewed and approved by the Company's Audit Committee.

Code of Ethics for Financial Professionals

The Company has adopted a Code of Ethics for Financial Professionals applicable to the principal executive officer and all persons serving in a finance, accounting, treasury, tax or investor relations role. The Code of Ethics sets forth standards designed to deter wrongdoing and to promote honest and ethical conduct by such persons, including the avoidance of conflicts of interest, protection of confidential information, and compliance with applicable laws and regulations. A copy of the Code of Ethics for Financial Professionals is available at the Company's website, www.pennichuck.com.

Equity Compensation Plans

The following table summarizes information, as of December 31, 2004, relating to the equity compensation plans of the Company pursuant to which equity securities of the Company are authorized for issuance.

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1)	134,538	$24.43	116,601
Equity compensation plans not approved by security holders (2)	-0-	-	No express number set by plan (2)
Total	134,538	$24.43	116,601

(1) These plans are the Company's 1995 Stock Option Plan and the 2000 Stock Option Plan.

(2) The Company adopted a Deferred Compensation Program for Directors of Pennichuck Corporation in 1987, as amended in 1997 (the "Plan"). The Plan enables directors to defer receipt of all or part of their annual retainer and meeting fees until the individual ceases to be a director or upon age 70, if earlier. Participating directors under the plan have the option of (1) deferring receipt of such fees, with interest accruing thereon based on the Company's average cost of money for its short term borrowings, or (2) converting such fees on a semi-annual basis into common share equivalents based on the closing bid price of the Company's common stock on the conversion date, with dividends credited to the participant on such unit share equivalents and similarly converted into additional common share equivalents. Upon termination of the deferral period, participating directors receive a distribution consisting either of the full amount of cash and interest accrued to his/her account or shares of restricted common stock of the Company equal to the number of unit share equivalents so accumulated. No directors are presently participating in this Plan. The Plan does not provide for a maximum number of shares of common stock that may be issued under the Plan.

REPORT OF THE COMPENSATION AND BENEFITS COMMITTEE

General

The Compensation and Benefits Committee of the Board of Directors (the "Compensation Committee") is comprised of four members of the Board of Directors. The Compensation Committee is responsible for establishing the Company's executive compensation program, including matters relating to the grant of options to purchase Company stock and any performance-based compensation for Company executives, subject to the concurrence of the Board of Directors.

Compensation Philosophy

The Compensation Committee aims to ensure that the Company's executive compensation program enables the Company to attract, retain, motivate and reward the talented executives it needs to advance the short- and long-term interests of shareholders and maintain a leadership position within the water utility industry. The Committee retained independent consultants in 2004 to advise them whether the total compensation opportunity available to Company executives is competitive with the remuneration received by those in positions of similar responsibilities in other comparable companies; the Committee also received such a report regarding an assessment and comparison of the Company's benefit plans.

The Compensation Committee's intent is to motivate its senior executives to achieve the Company's goals of providing its customers with high quality, cost-effective, reliable water services; managing the Company's real estate and other water service related activities; and providing the Company's shareholders with a market-based return on their investment.

Toward that end, the compensation program:

- Provides compensation levels that are competitive with those provided by companies with which the Company may compete for executive talent.
- Motivates senior executives to meet and exceed certain corporate financial goals and to achieve the Company's strategic business initiatives, and rewards them in the form of incentive compensation for the Company's achievements.
- Creates a strong link between stockholder and financial performance in the form of equity compensation for the Company's executive officers.

Compensation Program

The compensation program for the Company's executive officers is comprised of a base salary, an annual incentive opportunity and a long-term equity incentive opportunity. Executive officers may also participate in the Company's Savings Plan for Employees and other benefit plans generally available to all levels of salaried employees.

Base Salary

The President, with the concurrence of the Compensation Committee, annually sets the salary for each executive officer other than himself based on the assessment of that executive officer's responsibilities, performance and accomplishments over the prior years and the established goals and objectives for that executive for the upcoming year.

The performance of each executive officer is reviewed annually. The Compensation Committee reviews and approves all executive officer salary adjustments as recommended by the President. The Compensation Committee reviews the President's performance and establishes his base salary.

Incentive Compensation

The Compensation Committee has established an annual incentive bonus program that provides an opportunity to earn an annual cash incentive award when certain corporate financial goals are achieved. Cash bonuses for executive officers are paid once a year in the year following the fiscal year for which the stated goals were met. The Committee established an incentive compensation goal for the Company's executive officers for the 2004 fiscal year based on the achievement of certain earnings per share and return on equity in that year. None of the executive officers of the Company received an incentive cash award for 2004 services because of the Company's failure to achieve the established financial targets in fiscal 2004.

Equity-Based Program

The Company's equity-based compensation program consists principally of stock options that are granted from time to time under the Company's stock option plans and are designed to align management interests with those of the shareholders. The Committee bases grants of equity-based awards on various factors, including each executive officer's ability to contribute to the Company's future success and the other elements of such officer's compensation. The exercise price of stock options is equal to the fair market value of the stock when granted, and will result in a gain for the executive only in the event of an appreciation in the stock price. The Compensation Committee believes that stock options enable the Company to compete in the marketplace for executive talent and further align the interests of executives with those of the shareholders. Except as discussed below with respect to options granted to Mr. Correll upon commencement of his employment, the Company's stock options generally vest fully on the date of grant, immediately tying the executive to the Company's stock performance.

President's Compensation

Mr. Correll became President and Chief Executive Officer of the Company in August 2003; his fiscal 2003 compensation was determined by his Employment Agreement. His compensation for fiscal 2004 consists of a base salary, an incentive compensation bonus opportunity, and equity compensation in the form of stock options. When determining the components of Mr. Correll's compensation for fiscal 2004, the Compensation Committee gave consideration to his leadership and contributions to the Company's management structure during his initial months of employment, as well as the compensation paid to chief executive officers of other similarly sized publicly owned companies in comparable industries, taking into account his accumulated years of experience in the water utility industry. Mr. Correll received a grant of non qualified options to acquire 30,000 shares of common stock under the Company's option plans in connection with the commencement of his employment, with an exercise price based on the fair market value of the stock on the date of grant; these options vest in three segments, with one third or 10,000 options vesting at end of calendar year 2003, one third or 10,000 options vesting at the end of calendar year 2004 and the final one third vesting at the end of calendar year 2005. He received a grant of options to acquire 5,000 shares of common stock under the Company's option plans in January 2004, with an exercise price based on the fair market value of the stock on the date of grant. Mr. Correll did not receive an incentive bonus for fiscal 2004 based on the Company's failure to achieve the financial targets established by the Compensation Committee, both earnings per share and return on equity, for that year.

The Internal Revenue Code generally imposes a limitation on the deduction for federal income tax purposes of compensation paid in any one year, subject to certain specified exceptions. The Company's policy is to have all compensation fully deductible. Given the level of compensation paid to the Chief Executive Officer and the other executive officers named in the Summary Compensation Table, the deduction limitation is presently inapplicable to the Company. The Company will address this limitation if and when it becomes applicable to the Company's compensation program.

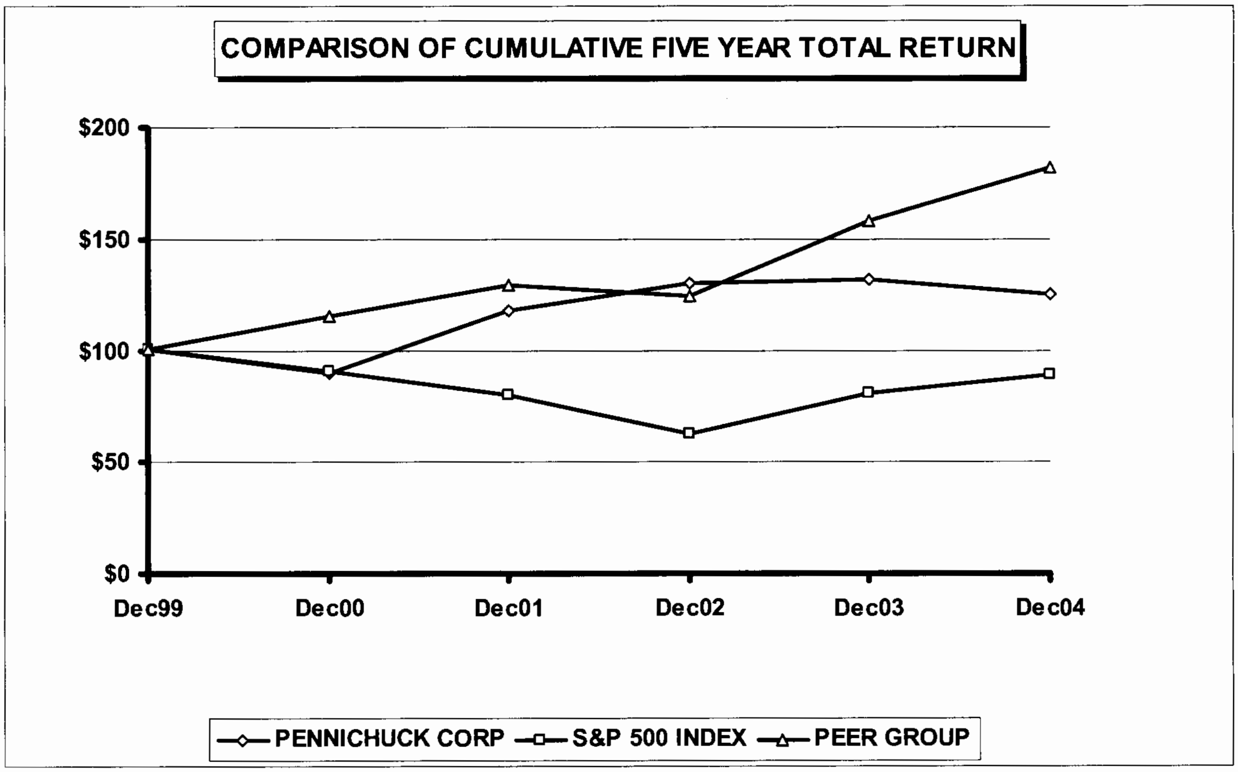
Respectfully submitted,

Charles E. Clough (Chairman)
Steven F. Bolander
Robert P. Keller
John R. Kreick

The foregoing "Report of the Compensation and Benefits Committee" shall not be deemed incorporated by reference by any general statement incorporating this Proxy Statement into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

COMPARATIVE STOCK PERFORMANCE

The following graph provides a comparison of the yearly cumulative total shareholder return on the common stock of the Company for the last five years with the yearly cumulative total return on the Standard & Poor's 500 Index and the average yearly cumulative total return of an industry peer group over the same period, assuming a $100 investment on December 31, 1999. All of these cumulative returns are computed assuming the reinvestment of dividends at the frequency with which dividends were paid during applicable years. Historical stock performance during this period may not be indicative of future stock performance.



Company Name / Index	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04
Pennichuck Corporation	100	89.99	117.70	129.87	131.28	125.10
S&P 500 Index	100	90.90	80.09	62.39	80.29	89.03
Peer Group*	100	115.40	129.50	123.98	158.31	182.30

*The Peer Group companies consist of American States Water Co., Aqua America Inc., Artesian Resources Corporation, BIW Ltd., California Water Service Group, Connecticut Water Service Inc., Middlesex Water Company, Pennichuck Corporation, SJW Corporation, Southwest Water Company and The York Water Company.

RELATIONSHIP WITH INDEPENDENT ACCOUNTANTS

Ratification of Appointment of Independent Accountants

The Audit Committee of the Board of Directors has appointed PricewaterhouseCoopers LLP as the independent accountants for the Company for the fiscal year ending December 31, 2005, subject to ratification of the shareholders. The Board of Directors recommends a vote **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as independent accountants for the Company to audit the books and accounts of the Company for the fiscal year ending December 31, 2005. No determination has been made as to what action the Audit Committee and the Board of Directors would take if the shareholders do not ratify the appointment. Representatives of PricewaterhouseCoopers LLP, the Company's independent accountants for the fiscal year ended December 31, 2004, are expected to be in attendance at the

Annual Meeting and will have the opportunity to make a statement, should they desire to do so, and are expected to be available to respond to questions.

Fees Paid to PricewaterhouseCoopers LLP

The following table sets forth the aggregate fees billed by PricewaterhouseCoopers LLP for professional services rendered in connection with the audit of the Company's annual financial statements for the fiscal years ended December 31, 2004 and December 31, 2003, and fees billed for audit-related services, tax services and all other services rendered during those periods.

Fee Category	Fiscal 2004	Fiscal 2003
	(in thousands)	
Audit Fees (1)	$ 119,500	$ 148,041
Audit-Related Fees	-	-
Tax Fees (2)		9,700
All Other Fees (3)	21,020	25,200
Total Fees	$ 140,520	$ 182,941

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(1) Audit Fees consist of fees billed for professional services rendered for the audit of the Company's consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports. For fiscal 2003, also includes fees billed for Section 404 compliance services required by the Sarbanes-Oxley Act and its implementing regulations.

(2) Tax fees consist of fees billed for professional services related to federal tax planning and consultation.

(3) All other fees consist of fees for all products and services other than those reported above. For fiscal 2004, includes fees, costs and expenses arising from refinancing activities. For fiscal 2003, includes fees, costs and expenses arising from regulatory investigations.

All audit services, audit-related services, tax services and other services for fiscal 2004 were pre-approved by the Audit Committee, which concluded that the provision of such services by PricewaterhouseCoopers LLP was compatible with the maintenance of that firm's independence in the conduct of its auditing function.

ANNUAL REPORT ON FORM 10-K

The Company's Annual Report on Form 10-K is available without charge upon request from our Investor Relations department at Pennichuck Corporation, 25 Manchester Street, Merrimack, New Hampshire 03054, Attention: Investor Relations; Telephone No. (603) 882-5191.

OTHER MATTERS

The Board of Directors knows of no business that will be presented for consideration at the Annual Meeting other than those items set forth in this Proxy Statement. The enclosed proxy confers upon each person entitled to vote the shares represented thereby discretionary authority to vote such shares in accordance with his or her best judgment with respect to any other matters which may properly be presented for action at the meeting.

Board of Directors and Officers

Board of Directors

Officers

Corporate Secretary

PENNICHUCK™ CORPORATION

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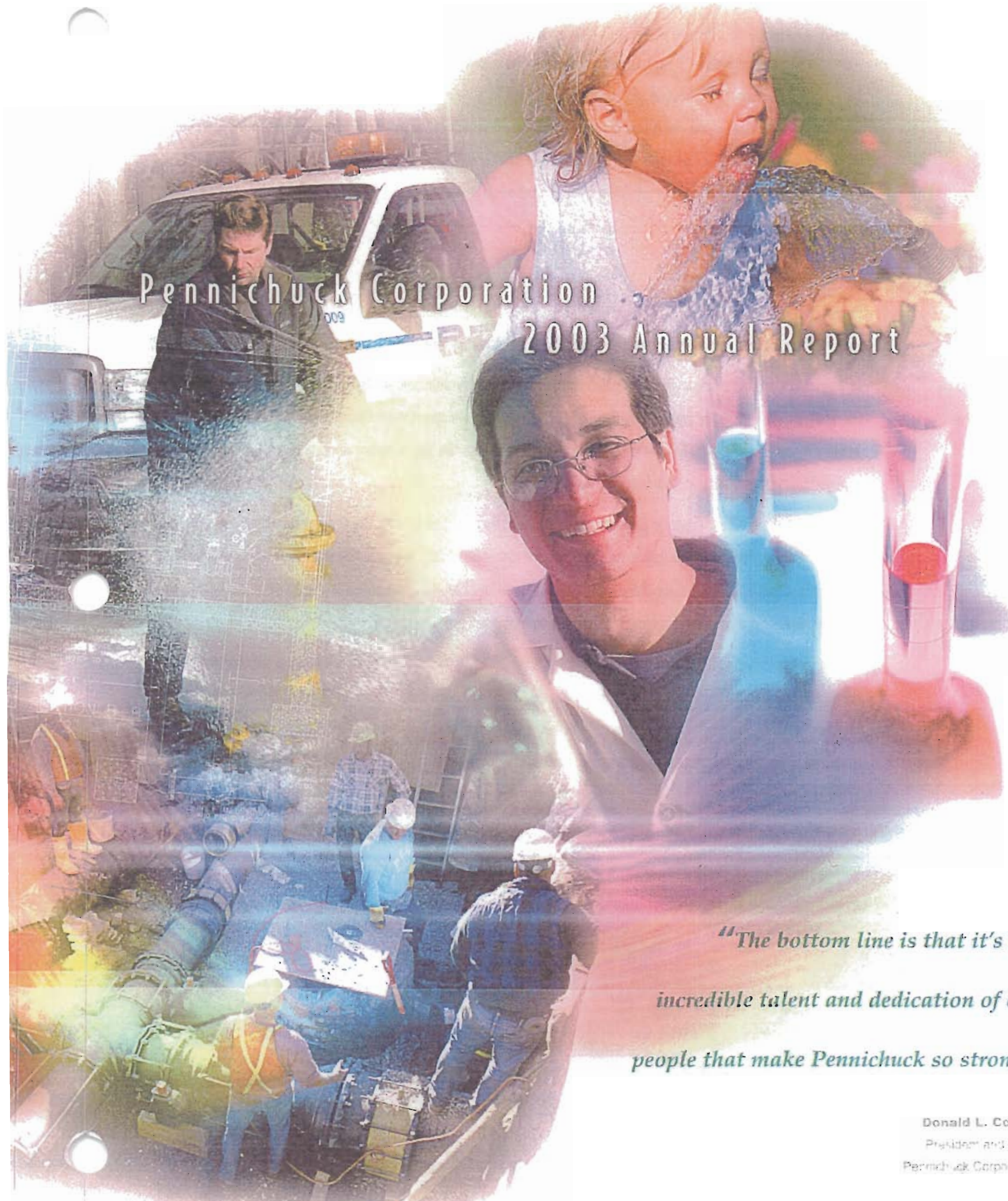
Pennichuck Corporation
2003 Annual Report



"The bottom line is that it's the incredible talent and dedication of our people that make Pennichuck so strong."

Donald L. Correll
President and CEO
Pennichuck Corporation

Company Overview

Pennichuck Corporation ("The Company") is a holding company with five wholly-owned operating subsidiaries: Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East"), Pittsfield Aqueduct Company, Inc. ("Pittsfield"), The Southwood Corporation ("Southwood") and Pennichuck Water Service Corporation (the "Service Company"). The Service Company provides water system management services for communities such as Hudson, New Hampshire. Southwood is a developer of commercial and residential real estate with landholdings in Nashua and Merrimack, NH. The mission of Pennichuck is to be a leading private supplier of quality, safe drinking water and water-related services in New England.

Review of Operations

Despite the uncertainty resulting from the city of Nashua's threat to municipalize your Company, everyone at Pennichuck remained focused on our mission to continually provide a higher level of service to our customers.

In the core system, our efforts were concentrated on the need to comply with more stringent water quality regulations and the resulting plan to upgrade our treatment process. During the year, we operated pilot plants to evaluate alternatives. After nearly a year of study, we will be able to determine the most cost-effective way to ensure compliance with all existing and proposed safe drinking water standards for the next 20 years.

One of the more significant capital improvement projects Pennichuck completed in 2003 was the repainting of the 4.5-million-gallon, steel reservoir tank at Kessler Farm at a cost of $896,000. We also continued our main replacement program in conjunction with the city of Nashua Combined Sewer Overflow (CSO) separation program that is enabling us to replace much of the more-than-a-century-old main piping in Nashua.

Improving water system infrastructure is often pivotal to a community's growth. By upgrading the water mains and making strategic interconnections with existing lines, Pennichuck improved water pressure to serve 500 new homes to be built in southwest Nashua. Similarly, our construction of a new 910,000-gallon storage reservoir in Litchfield provides the necessary capacity and fire protection to serve an expanding population of approximately 2,750 residents today, to over 5,000 in the coming years.

In Pittsfield, Pennichuck received a rate increase that included the investments we've made in recent years to improve the community's water treatment plant, upgrade the distribution system, and provide a more reliable water supply.

"I'm really impressed by the young people we've added, they are the future of our Company."

Stephen J. Densberger
Executive Vice President
Pennichuck Corporation

Today, Pennichuck owns or maintains 125 independent water systems. Managing these systems cost-effectively is possible because we adopt technologies that maximize our operating efficiency. This includes installation of our Supervisory Control And Data Acquisition (SCADA) system at remote pumping stations, to allow round-the-clock monitoring of all our water systems. Recently, we've started to equip our technicians with rugged, personal data assistants (PDAs). Now, data that's captured in the field can be instantly checked against normal operating parameters for pumping volume, chemical levels, and other quality measures. Abnormalities are immediately identified and investigated, so problems can be found and fixed more quickly. Electronic capture makes accessing data faster and easier too, as it can be automatically imported directly into Pennichuck's accounting systems for billing, or to compile state-required reports.

Pennichuck Water Service Corporation secured 18 new service contracts during 2003, bringing our total to 65 contracts. We also acquired two community water systems: White Rock Senior Living Community, in Bow, NH, which serves approximately 400 residents, and Lamplighter Village, in Windham, NH, which serves a population of approximately 200. Currently, we are in various stages of negotiation to acquire several other water systems.

In the aftermath of 9/11, Pennichuck conducted a USEPA-sponsored vulnerability assessment, the results of which became available last March. Since then, we have developed and published an emergency response plan for each of our independent water systems, and in the coming year we will invest over $250,000 to install fences, electronic gates, a card-controlled key system, and closed-circuit TV monitoring in certain areas.

Aggressive expansion in both regulated and non-regulated operations has increased the need for a more highly qualified workforce. Level 1 state certification is a pre-requisite for employment in operations at Pennichuck, while level 4 is a requirement for senior operators and department managers. During 2003, 15 Pennichuck employees took the initiative to gain a higher level of professional certification. This kind of dedication, to themselves and to your Company, is not uncommon at Pennichuck. But perhaps it is best exemplified by two long-term employees who retired in 2003, Bill York, our meter department supervisor, after 40 years of service, and Mike LeClerc, distribution manager, after 23 years with Pennichuck.

Pennichuck Corporation
2003 Financial Data

Shareholder Information

The annual report on Form 10-K of Pennichuck Corporation for the year ended December 31, 2003, as filed with the Securities and Exchange Commission, may be obtained from the Company by contacting Shareholder Relations, Pennichuck Corporation, 25 Manchester Street, PO Box 1947, Merrimack, NH 03054-1947.

Stock Transfer Agent and Registrar: American Stock Transfer & Trust Company, Shareholder Relations, 59 Maiden Lane, Plaza Level, New York, NY 10038, 800/937-5449, www.amstock.com.

Pennichuck Corporation's Annual Shareholders' Meeting will be held April 23, 2004 at 3:00 pm, at the Nashua Marriott Hotel, 2200 Southwood Drive in Nashua, New Hampshire.

Market & Dividend Information

The Company's Common Stock is quoted on the Nasdaq National Market System ("NMS") under the symbol "PNNW." On December 31, 2003, there were approximately 700 holders of record of the 2,396,140 shares of the Company's Common Stock outstanding.

The following table sets forth the comparative market prices per share of the Company's Common Stock based on the high and low closing sales prices as reported on the Nasdaq NMS during the applicable periods and the dividends declared by the Company during those periods. All stock information has been adjusted to reflect the four-for-three stock split effected December 3, 2001.

Period	High	Low	Dividends Declared
2003:			
Fourth Quarter	$28.73	$23.90	$0.215
Third Quarter	26.91	24.06	0.215
Second Quarter	25.44	21.75	0.215
First Quarter	28.48	21.01	0.195
2002:			
Fourth Quarter	$29.58	$27.10	$0.195
Third Quarter	28.34	23.65	0.228 (1)
Second Quarter	31.54	24.55	0.195
First Quarter	26.44	24.21	0.195
2001:			
Fourth Quarter	$26.81	$19.19	$ 0.19
Third Quarter	24.17	20.85	0.19
Second Quarter	25.61	19.02	0.19
First Quarter	21.76	18.51	0.19

(1) Includes a special one-time dividend of $.033 per share.

a number of other communities whose residents are served by one or more of the Company's subsidiaries have expressed interest in forming a regional water authority for the purposes of acquiring and operating a substantial portion of the Company's water related assets. The acquisition of Company assets by eminent domain would be highly uncertain and likely involve protracted proceedings before the New Hampshire Public Utilities Commission ("NHPUC"). The Company's shareholders are not required to ratify or approve any such forced sale of assets, or the price thereof, if so approved by the NHPUC.

Given the highly integrated nature of the Company's businesses, a forced sale of some or all of the Company's water related assets may result in increased costs and operating inefficiencies borne by the remaining assets of the Company not so acquired. Additionally, the Service Corporation's ability to service its existing contracts as well as pursue additional operating contracts may be impaired. There is no assurance that the City of Nashua or a regional water authority, if any, would be successful in acquiring some or all of the Company's assets by eminent domain, nor in such case is there any assurance as to the price determined by the NHPUC to be paid for those assets. The status of these eminent domain efforts is discussed in greater detail in Note 9 to the Notes to Consolidated Financial Statements.

On February 4, 2004, the Company filed a Petition for Declaratory Judgment against the City, seeking a determination by the New Hampshire Superior Court that, among other things, the State utility municipalization statute is unconstitutional and the City has failed to commence eminent domain proceedings at the NHPUC in a timely fashion and therefore is barred from continuing the current utility municipalization process against the Company.

Terminated Merger With Philadelphia Suburban Corporation

On April 29, 2002, the Company entered into a definitive agreement with Philadelphia Suburban Corporation ("PSC") to merge into a wholly-owned subsidiary of PSC with shareholders of the Company receiving shares of PSC in the merger. Total expenses associated with the PSC merger transaction were approximately $231,000 and $1,946,000 for the twelve months ended December 31, 2003 and 2002, respectively. As discussed in Note 9 to the Notes to the Consolidated Financial Statements, the Company and PSC mutually decided to terminate the merger agreement on February 4, 2003 following a January 14, 2003 referendum by the City of Nashua, New Hampshire. The referendum authorized the City to pursue the acquisition, by an eminent domain proceeding or otherwise, of all or a portion of the Company's water works systems serving the residents of Nashua and other communities in which the Company's three regulated utilities operate.

Results Of Operations

In this section, we discuss our 2003, 2002 and 2001 results of operations and the factors affecting them. The Company's operating activities, as discussed in greater detail in Note 12 to the Notes to Consolidated Financial Statements, are grouped into three primary business segments as follows:

The overall decline in water revenues reflects the greater level of precipitation experienced in the regions served by our water utilities during the third quarter of 2003 over the third quarter of 2002. Total rainfall in the third quarter of 2003 was nearly 14 inches compared to only 7.3 inches in the third quarter of 2002. As a result, the combined billed consumption of our three utilities declined by 2.9% from 2002. However, that negative impact on water revenues was partially offset by the positive effect of (i) a 5.76% rate increase approved by the NHPUC and implemented by Pennichuck in April 2002 and (ii) a 2.0% increase in customers over 2002, resulting in a total combined customer base of approximately 29,400 as of December 31, 2003.

In May 2003, Pittsfield filed a Notice of Intent to File for Rate Relief in which it sought an increase in its annual revenues. That rate case was concluded in December 2003 and in January 2004 the NHPUC granted an increase of 17.7%, representing additional annual revenues of approximately $73,000. This rate increase is effective for water bills rendered on and after January 1, 2004.

By late March or early April 2004, Pennichuck intends to file a Notice of Intent to File for Rate Relief in which it will be seeking a 9.7% rate increase for temporary rate relief effective on or about June 1, 2004 and an additional increase in its permanent rates effective on or about December 1, 2004. It is not certain whether or not this rate case will be concluded by the end of 2004 or the amount of rate increase which will ultimately be granted by the NHPUC, if any.

For the year ended December 31, 2003, utility operating expenses increased by $1.78 million, or 13.9%, to $14.57 million as shown in the table below.

	2003	2002	Change
Operations & maintenance	$ 9,406,000	$ 8,057,000	$ 1,349,000
Depreciation & amortization	2,843,000	2,639,000	204,000
Taxes other than income taxes	2,318,000	2,089,000	229,000
Total	$14,567,000	$12,785,000	$ 1,782,000

The operations and maintenance expenses of our water utility business include such categories as:

- water supply, treatment, purification and pumping,
- transmission and distribution system functions, including repairs and maintenance and meter reading, and
- customer service and general and administrative functions.

The combined increase in our utilities' operating expenses over 2002 was chiefly the result of the following:

- $240,000 of increased purification and treatment costs in our core Pennichuck system reflecting higher purchased water, power, chemical and labor costs;
- an increase of approximately $150,000 in distribution system expenses as a result of colder temperatures experienced in the first quarter of 2003 and the utilities' comprehensive system-wide flushing program undertaken in the second and third quarters of 2003 as well as increased labor costs;
- $800,000 of increased general and administrative costs primarily relating to costs for employee benefits, property and casualty insurance and administrative salaries;

since the requirements established under Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate" for recognition of all of the profit from this sale have not yet been met.

At December 31, 2003 and 2002, the Company's wholly-owned real estate subsidiary, The Southwood Corporation, had a 50 percent ownership interest in four limited liability companies ("LLC's") as discussed in greater detail under "Liquidity and Financial Condition, Investments in Unconsolidated Subsidiaries" and also under Note 4 in the Notes to Consolidated Financial Statements. The remaining 50% ownership interest in each of the LLC's is held by John Stabile, a local developer, with whom Southwood has also participated in four residential joint ventures during the past 10 years. Southwood uses the equity method of accounting for its investments in these LLC's and accordingly, its investment is adjusted for its share of earnings or losses and for any distributions received from the LLC's. For the year ended December 31, 2003, Southwood's share of pre-tax earnings and distributions from these LLC's was approximately $417,000 and $67,500, respectively, compared to pre-tax earnings of $314,000 and distributions of $175,000 for calendar year 2002. The improvement in the LLC's pre-tax earnings resulted primarily from interest costs savings of $137,000 on the re-refinancing of their mortgages during 2002. Southwood's share of pre-tax earnings is included under "Revenues-real estate operations" in the accompanying Consolidated Statements of Income.

Southwood also has a 60% ownership in Westwood Park LLC ("Westwood"), a consolidated joint venture formed in 1997 to develop a tract of land in northwest Nashua. During 2003, Westwood received $150,000 representing escrowed funds from a land sale which occurred in 2000. The restrictions relating to these funds have expired and as a result, these funds have been recognized as revenue for 2003.

Expenses associated with our real estate operations were $104,000 and $1.75 million for the years ended December 31, 2003 and 2002, respectively. The principal reason for this significant decrease was the recognition of approximately $1.66 million of direct infrastructure costs associated with the Southwood Corporate Park land sale in 2002 discussed above. Southwood's 2003 operating expenses of approximately $104,000 consisted primarily of $9,000 of property taxes associated with its remaining land-holdings and $65,000 for general and administrative costs.

Contract Operations

The following table provides a breakdown of revenues from our non-regulated, water-related contract operations for the years ended December 31, 2003 and 2002:

	2003	2002	Change
Municipal contracts	$1,191,000	$1,011,000	$ 180,000
Community system contracts	235,000	249,000	(14,000)
Watertight program	184,000	165,000	19,000
Miscellaneous	92,000	34,000	58,000
Total	$1,702,000	$1,459,000	$ 243,000

Results Of Operations - 2002 Compared To 2001

For the year ended December 31, 2002, the Company's consolidated net income was $2.34 million, compared to net income of $3.61 million in 2001, a decrease of 35%. On a per share basis, basic income per share was $.98 for the twelve months ended December 31, 2002, a $.54 per share decrease from the prior year. The decrease in consolidated net income was principally due to the transaction expenses incurred during 2002 relating to the proposed merger with PSC which was subsequently terminated in February 2003. Excluding the effect of those merger expenses, consolidated net income for 2002 was $3.53 million, or $1.48 per share.

Consolidated revenues in 2002 were $23.42 million, a 3% increase over 2001. As discussed below, increased revenues resulted primarily in the Company's regulated water and contract operations businesses offset by decreased revenues from land sales in 2002.

Water Utility Operations

On a combined basis, net income of our three utilities in calendar year 2002 was approximately $2.53 million, an increase of 30.7% from 2001 principally due to rate relief granted to Pennichuck in 2002 as discussed below.

Utility operating revenues for 2002 increased to $18.83 million, or 8%, from 2001. For 2002, approximately 82%, 16% and 2% of our total utility operating revenues were generated by Pennichuck, Pennichuck East and Pittsfield, respectively, which was not materially different than in 2001 as shown in the following table.

	2002	2001	Change
Pennichuck	$15,344,000	$14,102,000	$ 1,242,000
Pennichuck East	3,098,000	2,895,000	203,000
Pittsfield	388,000	415,000	(27,000)
Total	$18,830,000	$17,412,000	$ 1,418,000

The $1.24 million increase in Pennichuck's revenues from 2001 to 2002 is principally due to the positive effect of an 8.67% rate increase granted to Pennichuck in September 2001 and an additional 5.76% rate increase granted to Pennichuck in March 2002. The annualized effect of those two rate increases was estimated to be approximately $1.8 million. However, the positive effect of those rate increases in 2002 was partially offset by a 4.6% decline in billed consumption within the core system from 2001. Through the first nine months of 2002, rainfall in the region in which the utilities operate was 16.2% greater than in the same period of 2001, contributing to the overall decline in consumption for the year. In addition to the core system rate increases, water revenues reflect a 2.1% growth (approximately 600 customers) in the combined utilities' customer base from December 31, 2001 to December 31, 2002.

During 2002, there were no new rate filings made by the Company's three regulated water utilities.

Our utilities' operating expenses increased by $376,000, or 3%, to $12.8 million for the year ended December 31, 2002. The primary reasons for the increased utility operating costs from 2001 to 2002 were:

For 2002, real estate revenues included the following:

- Net cash proceeds of $2.43 million from the sale of the remaining 40 acres in Southwood Corporate Park during the first quarter of 2002 to Winstanley, one of Southwood's existing joint venture partners discussed earlier;
- $314,000 in pre-tax earnings from Southwood's 50% ownership interest in HECOP I, II and III;
- $168,000 cash from the sale of a one-half interest in a 9.1 acre tract of land to John Stabile, a related party, for the creation of HECOP IV, LLC; and
- $91,000 of interest income earned on outstanding notes receivable due from Adella Realty Trust, also a local developer.

Revenues from real estate operations during 2001 consisted chiefly of the following:

- Proceeds of $2 million from the sale of land to the City of Nashua by Westwood Park LLC;
- $524,000 from Southwood's share of pretax profit from Heron Cove at Bowers Pond LLC, one of its residential joint ventures with John Stabile;
- $422,000 from the sale of two land parcels in Southwood Corporate Park;
- $155,000 cash from the sale of a one-half interest in a 4-acre tract of land for the creation of HECOP III, LLC to John Stabile, a related party, who also holds an ownership interest in HECOP I and II:
- $100,000 from the sale of a residential land parcel to Lansing Realty Trust, an affiliate of Adella Realty Trust; and
- $141,000 in pre-tax earnings from Southwood's 50% ownership in HECOP I, II and III

Expenses associated with our real estate operations during 2002 increased by $838,000 to $1.75 million for the year ended December 31, 2002. Included in 2002 and 2001 real estate expenses was approximately $1.66 million and $396,000, respectively, of direct infrastructure costs associated with the Southwood Corporate Park land sales in those years. Excluding those infrastructure costs, Southwood's 2002 operating expenses were approximately $89,000 consisting primarily of property taxes and general and administrative costs. For 2001, real estate operating expenses were comprised of (i) $47,000 of bad debt expense relating to accrued interest on certain notes receivable, (ii) $108,000 of property taxes and property maintenance expenses associated with Southwood's remaining land-holdings, and (iii) $273,000 for allocated intercompany charges.

Contract Operations

For the year ended December 31, 2002, net income from our contract operations was $127,000, an increase of $38,000, or 43% from 2001.

At December 31, 2003 and 2002, the Company's cash and cash equivalents, primarily short-term investments, totaled approximately $391,000 and $2.44 million, respectively. The $2.05 million decline in the Company's consolidated cash position, together with a $2 million increase in its short-term borrowings, were the result of several factors affecting the Company's liquidity during 2003 as discussed below.

- A combination of lower than normal water consumption and increased distribution maintenance costs adversely impacted the operating income of our regulated operating activities by approximately $1.9 million as discussed earlier under "Results of Operations -- 2003 Compared to 2002, Water Utility Operations."
- The Company incurred costs totaling approximately $1.11 million relating to the terminated merger with Philadelphia Suburban Corporation, the eminent domain efforts by the City and the regulatory investigations.
- Our water utility subsidiaries invested approximately $7.2 million in new and replacement property and plant during 2003, net of only $178,000 in contributions in aid of construction from local area developers and state and federal grants.

During 2003, the Company utilized its revolving loan credit facility (the "Loan Agreement) with Fleet for working capital and capital expenditure requirements. Under the Loan Agreement, the Company and its subsidiaries may borrow up to $2.5 million at interest rates tied to the bank's cost of funds or LIBOR, whichever is lower. At December 31, 2003, there was $2 million outstanding under the Loan Agreement at floating interest rates ranging from 2.43% to 2.47%. In March 2004, the Company received a commitment letter from Fleet to provide for $6.5 million in available short-term credit on the same terms contained in the original Loan Agreement. This increase in the line of credit is necessary in order to fund (i) its planned capital expenditures over the next two years, (ii) any future costs associated with the Company's defense against the City of Nashua's eminent domain taking, and (iii) any unanticipated shortfall in operating cash flow.

As disclosed in Note 3 of the Notes to Consolidated Financial Statements, the Company has certain debt instruments that contain annual sinking fund or other required principal payments. The Company believes that it will be able to refinance these debt instruments at their maturity through public issuance, or private placement, of debt or equity.

Our consolidated capital expenditures in 2003 totaled $7.2 million, net of contributions in aid of construction. Practically all of that amount was for projects relating to our water utility business. In 2003, the more significant projects included:

- $983,000 for replacing aging distribution mains in Nashua, New Hampshire;
- $896,000 for the repainting of a 4.5 million gallon steel tank in Pennichuck's core system;
- $484,000 for the initial design phase of planned treatment plant filter upgrades;
- $1.12 million for the construction of a 1 million gallon storage facility in Pennichuck East's Litchfield, New Hampshire franchise; and
- $1.19 million for the replacement and installation of new radio read meters which is part of an ongoing replacement program in Pennichuck's and Pennichuck East's service territories.

The following is a discussion of other major changes in the Company's consolidated financial position from December 31, 2002 to December 31, 2003:

- "Notes receivable" classified under Current Assets decreased by $605,000 reflecting the net payments received on a development and construction loan to Adello Realty Trust which were repaid in full in May 2003;
- "Refundable income taxes" increased $811,000 principally from the expected recovery of prior years' income taxes paid resulting from a tax net operating loss carryback discussed earlier;
- The net decrease in "Accrued pension liability" of $537,000 reflects the Company's change in its pension plan funding status from a $615,000 accrued liability balance at December 31, 2002 to a $78,000 accrued liability at the end of 2003 as discussed in greater detail below.

The "Long-term note receivable" balance of $1.22 million at December 31, 2003 represents a note received by Southwood from the sale of a 66.8 acre tract of land to Folsom Development Corporation in January 2003 as discussed earlier under "Results of Operations – 2003 compared to 2002, Real Estate Operations." Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $257,000 in cash and a long-term note receivable of $1,224,000. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property.

Investments in Unconsolidated Subsidiaries

At December 31, 2003 and 2002, the Company's wholly-owned real estate subsidiary, The Southwood Corporation, had a 50 percent ownership interest in four limited liability companies ("LLC's") as discussed in Note 4 in the Notes to Consolidated Financial Statements. The remaining 50% ownership interest in each of the LLC's is held by John Stabile, a local developer, with whom Southwood has also participated in four residential joint ventures during the past 10 years. The formation of these LLC's provides Southwood with an opportunity to develop its land-holdings in such a manner as to provide for a long-term income stream through commercial rental activities. Additionally, the LLC's, as legal entities, mitigate the financial risk associated with sole ownership of developed commercial properties by Southwood. The LLC's, whose assets and liabilities are not included in the accompanying Consolidated Balance Sheets, own certain commercial office buildings on which there are outstanding mortgage notes totaling $9.2 million and $9.5 million as of December 31, 2003 and 2002, respectively. Southwood is contingently liable on one half of the outstanding mortgage balances and as such, it has issued a guarantee to the mortgagee for its share of the guaranteed indebtedness. The principal assets of the LLC's are the land, buildings and leasehold improvements, the total of which at December 31, 2003 and 2002 was $9.72 million and $9.40 million, respectively.

Contractual Obligations

The following table discloses aggregate information about our contractual obligations and the periods in which payments are due:

rate of future increases in compensation. A lower discount rate increases the present value of our pension obligations and our annual pension expense. We have reduced our discount rate from 6.50% to 6.25% for 2003 reflecting the overall change in market conditions. Our expected long-term rate of return on pension plan assets is based on the plan's expected asset allocation, expected returns on various classes of plan assets as well as historical returns. We assumed that our long-term rate of return on pension plan assets was 8% in 2003 and 2002 and 9% in 2001. In addition, we assumed an increase in participant compensation levels of 3%, 4% and 5% in 2003, 2002 and 2001, respectively. These key assumptions are reviewed annually with our actuary and investment advisor and are updated to reflect the plan's experience. Actual results in any given year will often differ from our actuarial assumptions because of economic and other conditions which may impact the amount of pension expense the Company recognizes.

At December 31, 2002, the Company had a minimum pension liability of approximately $615,000, representing the excess of its pension liabilities over its plan assets. However, during 2003, the rate of return on plan investments was approximately 17.2% compared to a negative rate of return of 7.4% in 2002. As a result, the market value of the Company's plan assets was slightly lower than its accumulated benefit obligation by approximately $78,000 at December 31, 2003. The Company has recorded an adjustment of approximately $537,000 which resulted in a pension liability of approximately $78,000 at the end of 2003 and a credit, net of taxes, of approximately $349,000 to Other Comprehensive Income. Future adjustments to Other Comprehensive Income will be affected by changes in realized returns on pension plan assets, contributions to pension assets by the Company and changes in discount rates.

Critical Accounting Policies

The Company has identified the accounting policies below as those policies critical to its business operations and the understanding of the results of operations. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Changes in the estimates or other judgments included within these accounting policies could result in significant changes to the financial statements. Our critical accounting policies are as follows.

Regulatory Accounting - the use of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards No. 71 ("SFAS 71"), *"Accounting for the Effects of Certain Types of Regulation"* stipulates generally accepted accounting principles for companies whose rates are established by or are subject to approval by an independent third-party regulator. In accordance with SFAS No. 71, we defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in rates charged to our water utilities' customers. In the event that the inclusion in the rate-making

Dividend Reinvestment And Common Stock Purchase Plan

We offer a Dividend Reinvestment and Common Stock Purchase program that is available to our shareholders and residential utility customers residing in New Hampshire. Under this program, our shareholders may reinvest all or a portion of their common dividends into shares of common stock at prevailing market prices. We also accept optional cash payments to purchase additional shares at 100% of the prevailing market prices. This program has provided the Company with additional common equity of $253,000 and $47,000 in 2001 and 2002, respectively. No additional common equity was provided with respect to this program during 2003.

Environmental Matters

Our water utility subsidiaries are subject to the water quality regulations set forth by the EPA and the New Hampshire Department of Environmental Services ("DES"). The EPA is required to periodically set new maximum contaminant levels for certain chemicals as required by the federal Safe Drinking Water Act ("SDWA"). The quality of our treated water currently meets or exceeds all standards set by the EPA and the DES. However, increased monitoring and reporting standards have led to additional operating costs for us. Any additional monitoring and testing costs arising from future EPA and DES mandates should eventually be recovered through water rates in our utilities' future rate filings.

Pennichuck's filtration plant in Nashua is impacted by the Interim Enhanced Surface Water Treatment Rule ("IESWTR") which established a new turbidity standard of 0.3 NTU. Pennichuck has committed approximately $1.48 million in its 2004 capital budget for the design phase required for this project. As discussed earlier, Pennichuck estimates the total cost to comply with this new standard to be approximately $26 million over the next three years although such estimates are subject to any future changes in the IESWTR standards and changes in design and construction that may be required.

Two of Pennichuck's small community water systems have wells that produce water with arsenic levels in excess of the new standard of 10 ppb which is effective in February 2006. It will be necessary for Pennichuck to install arsenic treatment systems at these locations, however, the expenditures necessary to comply with this standard are not expected to be a material part of the Company's future capital expenditure program. Pennichuck's remaining community water systems have wells that produce water meeting the new arsenic standard.

Capital expenditures associated with federal and state water quality standards have historically been recognized and approved by the NHPUC for inclusion in our utilities' water rates.

New Accounting Standards

In May 2003, the FASB issued SFAS No. 150, *"Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"* ("SFAS 150"). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 applies specifically to a number of financial instruments that companies have historically presented with their financial

Report Of Independent Auditors

To the Shareholders and Board of Directors of Pennichuck Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows present fairly, in all material respects, the financial position of Pennichuck Corporation and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. The financial statements of Pennichuck Corporation for the year ended December 31, 2001 were audited by other independent auditors who have ceased operations. Those independent auditors expressed an unqualified opinion on those financial statements in their report dated February 15, 2002.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Boston, Massachusetts

February 24, 2004

Consolidated Balance Sheets - continued *(In thousands, except share and per share data)*

Stockholders' Equity And Liabilities	December 31, 2003	2002
Stockholders' Equity		
Common stock - $1 par value - authorized 11,500,000 shares in 2003 and 2002 - issued 2,397,092 and 2,393,391 shares, respectively - 2,396,140 and 2,391,439 shares outstanding - respectively	$ 2,397	$ 2,393
Additional paid in capital	15,208	15,170
Retained earnings	13,178	13,941
Accumulated Other Comprehensive Income	(473)	(927)
	30,310	30,577
Less treasury stock, at cost; 952 and 1,952 shares at December 31, 2003 and 2002, respectively	(138)	(144)
	30,172	30,433
Minority interest	8	-
Preferred stock, no par value, 100,000 shares authorized, no shares issued in 2003 and 2002	-	-
Commitments and contingencies *(Note 9)*		
Long-term debt, less current portion	26,879	26,860
Current Liabilities		
Line of credit	2,000	-
Current portion of long-term debt	368	354
Accounts payable	913	673
Accrued interest payable	370	370
Other current liabilities	1,773	1,534
	5,424	2,931
Deferred Credits and Other Reserves		
Deferred income taxes	8,552	6,634
Deferred gain on land sale	1,224	-
Deferred investment tax credits	966	999
Regulatory liability	1,107	1,138
Post-retirement health benefit obligation	560	570
Accrued pension liability	78	615
Other liabilities	345	541
	12,832	10,497
Contributions in Aid of Construction	21,895	20,261
Total Stockholders' Equity and Liabilities	$97,210	$90,982

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

Notes To Consolidated Financial Statements

Note 1 – Significant Accounting Policies

Pennichuck Corporation (the "Company") is an investor-owned holding company located in Nashua, New Hampshire with three wholly-owned operating subsidiaries, Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. ("Pittsfield"), involved in regulated water supply and distribution in Nashua and towns throughout southern and central New Hampshire; non-regulated, water-related services conducted through Pennichuck Water Service Corporation (the "Service Corporation"); and real estate management and development activities conducted through The Southwood Corporation ("Southwood").

Pennichuck, Pennichuck East and Pittsfield (collectively referred to as the "Company's utility subsidiaries") are engaged principally in the gathering and distribution of potable water to approximately 29,400 customers in southern and central New Hampshire. The Company's utility subsidiaries, which are regulated by the New Hampshire Public Utilities Commission (the "NHPUC"), are subject to the provisions of Statement of Financial Accounting Standards No. ("SFAS") 71, *"Accounting for the Effects of Certain Types of Regulations."* The Service Corporation is involved in providing non-regulated, water-related services to over 8,300 customers while Southwood owns, manages and develops real estate.

(a) Principles of Consolidation

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

(b) Investment in Joint Ventures

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 "Revenues-real estate operations" 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 4, "Equity Investments in Unconsolidated Companies" for further discussion of its equity investments.

(c) 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. Actuol results could differ from those estimates.

Notes To Consolidated Financial Statements - continued

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash in banks, demand deposits and investments in short-term money market funds with initial maturities, when purchased, of three months or less.

(e) Restricted Cash

Restricted cash consisted primarily of funds escrowed by one of Southwood's joint ventures for the payment of certain traffic improvements relating to an industrial park. The restrictions relating to these funds expired in 2003.

(f) Inventory

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

(g) Property, Plant and Equipment

Property, plant and equipment, which includes principally the water utility assets of the Company's utility subsidiaries, is recorded at cost plus an allowance for funds used during construction on major, long-term projects. The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets including property funded with contributions in aid of construction. The useful lives range from 5 to 84 years and the average composite depreciation rate was 2.67% in 2003, 2.69% in 2002 and 2.67% in 2001. Depreciation expense in 2003, 2002 and 2001 was $2,937,358, $2,730,486 and $2,489,910, respectively. The components of Property, Plant and Equipment at December 31, 2003 and 2002 are as follows:

(In thousands)	2003	2002	Useful Lives
Utility Property			
Land	$ 1,125	$ 1,083	-
Source of supply	20,579	18,659	34 - 75
Pumping & purification	9,183	9,060	15 - 35
Transmission & distribution	57,692	53,750	40 - 84
General, including services, meters, hydrants and other equipment	24,907	22,610	7 - 75
Construction work in progress	718	515	
Total Utility Property	114,204	105,677	
Non-utility Property	1,282	1,274	5 - 40
Total Property, Plant & Equipment	$115,486	$106,951	

Notes To Consolidated Financial Statements - continued

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

(h) Treasury Stock

Treasury stock held by the Company represents shares tendered by employees as payment for existing outstanding options. Treasury stock received is recorded at its fair market value when tendered. Any such treasury stock held by the Company is not retired but instead is held until its ultimate disposition has been decided.

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

AFUDC represents a non-cash credit to income with a corresponding charge to plant in service. AFUDC amounts reflect the cost of borrowed funds and, if applicable, equity capital when used to fund major plant construction projects. During 2003, total AFUDC credited to income was approximately $4,300. There were no AFUDC amounts credited to income during 2002 and 2001.

(j) 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 the 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.

(k) Deferred Charges and Other Assets

Deferred charges include certain regulatory assets and costs of obtaining debt financing. Regulatory assets are amortized over periods being recovered through authorized rates. Deferred financing costs are amortized over the term of the related bonds and notes. Such 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, these regulatory assets are being amortized over periods ranging from 3 to 25 years. Deferred charges and other assets consist of the following:

Notes To Consolidated Financial Statements - continued

(In thousands)	2003	2002
Regulatory assets		
Source development charges	$ 669	$ 627
Miscellaneous studies	742	701
Company-owned life insurance	253	225
Sarbanes-Oxley costs	140	-
Other	55	44
	1,859	1,597
Financing costs	501	542
Franchise fees and other	444	406
Filtration grant receivable	283	301
Total	$3,087	$2,846

Sarbanes-Oxley costs totaling approximately $140,000 represent costs incurred during 2003 relating to the implementation and compliance with Section 404 of the Sarbanes-Oxley Act of 2002. The Company has received approval from the NHPUC related to the future recoverability of such costs.

(l) Deferred Land Costs

Included in deferred land costs is Southwood's original basis in its land-holdings and any land improvements which are stated at the lower of cost or market.

(m) Notes Receivable

In January 2003, Southwood sold a tract of land to an unaffiliated regional developer for approximately $1.5 million. Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $257,000 in cash and a long-term note receivable of $1,223,990. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.48 million, of which $257,000, representing the net cash received at closing, is included in "Revenues-Real estate operations." The remaining gain of $1,223,990, represented by the note receivable, has been deferred until payment of the note since the requirements established under Statement of Financial Accounting Standards No. 66, " Accounting for Sales of Real Estate," for recognition of all of the profit from this sale have not yet been met.

Notes To Consolidated Financial Statements - continued

Included in current assets at December 31, 2002 were two notes receivable from a local developer totaling $604,500 representing funds loaned by Southwood to the developer for land acquisition and construction of 3 residential homes. The notes, which provided for an annual interest rate of 10.5% and were secured by a first mortgage interest in the land and buildings, were repaid in full in May 2003.

(n) Income Taxes

Income taxes are recorded in accordance with SFAS No. 109, "Accounting for Income Taxes" using the accrual method and the provision for federal and state income taxes is based on income reported in the 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 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) Contributions in Aid of Construction ("CIAC")

Under construction contracts with real estate developers and others, the Company's regulated subsidiaries receive non-refundable advances for the costs of new main installation. The regulated subsidiaries also credit 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 and related plant asset are amortized over the life of the property.

(p) Reclassifications

Certain amounts in 2002 have been reclassified to conform with the 2003 financial statement presentation.

(q) Earnings Per Share

The Company computes earnings per share following the provisions of SFAS No. 128, *"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, 2003, 2002 and 2001, dilutive potential common shares consisted of outstanding options.

Notes To Consolidated Financial Statements - continued

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 shares are as follows:

(In thousands, except share and per share data)	2003	2002	2001
Basic earnings per share	$ 0.52	$ 0.98	$ 1.52
Dilutive effect of unexercised stock options	-	(0.01)	(0.02)
Diluted earnings per share	$ 0.52	$ 0.97	$ 1.50
Numerator			
Basic net income	$1,247	$2,341	$3,612
Diluted net income	$1,247	$2,341	$3,612
Denominator			
Basic weighted average shares outstanding	2,392,919	2,390,942	2,382,389
Dilutive effect of unexercised stock options	5,279	20,839	17,699
Diluted weighted average shares outstanding	2,398,198	2,411,781	2,400,088

(r) Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148, *"Accounting for Stock-Based Compensation- Transition and Disclosure- an amendment to FASB Statement No. 123"* ("SFAS 148") which provides for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires prominent disclosures in both interim and annual financial statements about the method of accounting for stock-based employee compensation. At this time, the Company does not intend to change to the fair value based method of accounting for stock-based compensation. On a pro forma basis, the Company's net income and earnings per share would have been reduced to the following amounts had compensation cost for the plan been determined consistent with SFAS No. 123, *"Accounting for Stock-Based Compensation"*.

Notes To Consolidated Financial Statements - continued

(In thousands, except share and per share data)	2003	2002	2001
Net income			
As reported	$1,247	$2,341	$3,612
Less			
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related taxes	(181)	(145)	(143)
Pro forma net income	$1,066	$2,196	$3,469
Basic net income per share:			
As reported	$ 0.52	$ 0.98	$ 1.52
Pro forma	$ 0.45	$ 0.92	$ 1.46
Diluted net income per share			
As reported	$ 0.52	$ 0.97	$ 1.50
Pro forma	$ 0.44	$ 0.91	$ 1.45

Note 2 - Income Taxes

The components of the federal and state income tax provision at December 31 are as follows:

(In thousands)	2003	2002	2001
Federal	$ 728	$1,180	$2,113
State	193	303	577
Amortization of investment tax credits	(33)	(33)	(33)
	$ 888	$1,450	$2,657
Currently payable/(receivable)	$(769)	$ 436	$1,836
Deferred	1,657	1,014	821
	$ 888	$1,450	$2,657

Notes To Consolidated Financial Statements - continued

The following is a reconciliation between the statutory federal income tax rate and the effective income tax rate for 2003, 2002 and 2001:

	2003	2002	2001
Statutory federal rate	34.0%	34.0%	34.0%
State tax rate, net of federal benefit	5.6	5.6	5.6
Permanent differences	7.0	-	-
Amortization of investment tax credits	(1.5)	(.9)	(.5)
Effective tax rate	45.1%	38.7%	39.1%

At December 31, 2003, the Company had approximately $93,000 of alternative minimum tax credits resulting from a net operating loss in 2003. The net operating loss credits will be carried back into 2001 and 2002. The Company did not have any alternative minimum tax credits available at December 31, 2002, and 2001.

The Company has a regulatory liability related to income taxes of $1,107,109 and $1,138,090 at December 31, 2003 and 2002, 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. The liability is being amortized over an average remaining life of 30 years consistent with the Company's rate-making treatment.

The temporary items that give rise to the net deferred tax liability at December 31, 2003 and 2002 are as follows:

(in thousands)	2003	2002
Liabilities		
Property related	$10,977	$ 9,264
Other	625	706
	11,602	9,970
Assets		
Investment tax credits and other	1,107	1,138
Taxes on contributions in aid of construction	461	580
Alternative minimum tax carry-back	93	-
Deferred gain on land sale	485	-
Merger-related and other	1,204	1,918
	3,350	3,636
Valuation allowance	(300)	(300)
Net deferred tax liabilities	$ 8,552	$ 6,634

Notes To Consolidated Financial Statements - continued

The Company has recorded a valuation allowance of approximately $300,000 relating to contribution deductions expected to be taken within the next four years (the statutory carry forward period for federal tax purposes). However, there is no assurance that future taxable income will be sufficient to realize such tax benefits given current Internal Revenue Code limitations. Furthermore, in the event that the Internal Revenue Service examines any of the years affected by this carry forward, the Company's ability to utilize such deductions could be altered as well. When the Company is able to determine that it is probable these benefits will be realized in full or in part, the related valuation allowance will be reduced accordingly.

Note 3 - Debt

Long-term debt at December 31 consists of the following:

(In thousands)	2003	2002
Unsecured notes payable to various insurance companies		
9.10% due April 1, 2005	$ 3,500	$ 3,500
7.40% due March 1, 2021	8,000	8,000
Unsecured Industrial Development		
Authority Revenue Bond 1988 series 7.50%, due July 1, 2018	975	1,040
Unsecured Business Finance Authority		
1994 Revenue Bond (series A), 6.35% due December 1, 2019	2,480	2,615
Unsecured Business Finance Authority		
1994 Revenue Bond (series B), 6.45% due December 1, 2016	1,320	1,435
Unsecured Business Finance Authority		
1997 Revenue Bond, 6.30%, due May 1, 2022	4,000	4,000
Secured notes payable to bank, floating rate, due April 8, 2005	6,000	6,000
Unsecured New Hampshire State Revolving Fund		
Loan, 3.80%, due May 1, 2022	404	429
Loan, 2.315%, due April 1, 2013	133	145
Loan, 3.976%, due January 1, 2025	399	-
Secured loan, 5.00%, due October 1, 2005	36	50
	27,247	27,214
Less current portion	368	354
	$26,879	$26,860

Notes To Consolidated Financial Statements - continued

The 1994 Series A and B Bonds are not subject to optional redemption until 2004 at which time they may be redeemed in whole or in part at the Company's option at a premium not to exceed 2% and may be redeemed at par an or after December 1, 2008. The notes and bonds payable require periodic interest payments (either monthly or semi-annually) which are based on the outstanding principal balances. The aggregate principal payment requirements subsequent to December 31, 2003 are as follows:

(In thousands)	**Amount**
2004	$ 368
2005	9,886
2006	367
2007	768
2008	969
2009 and thereafter	14,889
	$27,247

The note and bond agreements require, among other things, the maintenance of certain financial ratios and restrict the payment or declaration of dividends by Pennichuck. Under Pennichuck's most restrictive covenant, cumulative common dividend payments or declarations by Pennichuck subsequent to December 31, 1989 are limited to cumulative net income earned after that date plus $1,000,000. At December 31, 2003, approximately $4.4 million of Pennichuck's retained earnings were unrestricted for payment or declaration of common dividends. In addition, substantially all of the assets owned by Pennichuck East, totaling approximately $16.6 million and $13.8 million at December 31, 2003 and 2002, respectively, are secured as collateral under a certain $4.5 million note with a local bank dated April 8, 1998.

The Company has available a $2.5 million unsecured, revolving credit facility with a bank. Borrowings under the revolving credit facility bear interest at a variable rate equal to the lesser of the bank's cost of funds or the LIBOR rate plus 125 basis points. The revolving credit facility is subject to renewal and extension by the bank annually on June 30 of each year. At December 31, 2003, the Company had outstanding borrowings under the revolving credit facility totaling $2.0 million. At December 31, 2002, there were no outstanding borrowings under this facility.

The Company has two interest rate financial instruments which qualify as derivatives under Statement of Financial Accounting Standards No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* ("SFAS 133"). These financial derivatives have been designated as cash flow hedges under the provisions of SFAS No. 133. The financial instruments are used to mitigate interest rate risks associated with the Company's $6 million floating-rate loans. The floating rates, which are based on LIBOR plus 65 basis points, were 1.82% and 2.08%,

Notes To Consolidated Financial Statements - continued

at the end of 2003 and 2002, respectively. The agreements provide for the exchange of fixed rate interest payment obligations for floating rate interest payment obligations on notional amounts of principal. The two derivative agreements have a fixed rate of 6.50%. The notional amount of the debt for which interest rate exchanges have been entered into under these agreements is $6,000,000 at December 31, 2003 and 2002. The fair value of the financial derivatives, included in the Company's consolidated balance sheet as "Other liabilities", was approximately $345,000 and $541,000 at December 31, 2003 and 2002, respectively. Changes in the fair values of those derivatives are deferred in accumulated other comprehensive income.

Note 4 - Equity Investments in Unconsolidated Companies

At December 31, 2003 and 2002, Southwood had a 50 percent ownership interest in four limited liability companies ("LLCs"). The remaining 50 percent ownership interest in each of the LLCs is held by John Stabile, principal owner of H.J. Stabile & Son, Inc.("Property Manager").The LLCs, whose assets and liabilities are not included in the accompanying consolidated balance sheets, own certain commercial office buildings on which there are outstanding mortgage notes totaling approximately $9.2 million and $9.5 million at December 31, 2003 and 2002, respectively. Southwood is contingently liable for one half of the outstanding mortgage balances and as such, it has issued a guarantee to the mortgagee for its share of the guaranteed indebtedness.

Southwood uses the equity method of accounting for its investments in the four LLCs and accordingly, its investment is adjusted for its share of earnings or losses and for any distributions or dividends received from the LLCs. For the years ended December 31, 2003, 2002 and 2001, Southwood's share of earnings in the LLCs was approximately $417,000, $314,000, and $141,000, respectively. Southwood's share of earnings and losses are included under revenues-real estate operations in the accompanying consolidated statements of income. For the years ended December 31, 2003, 2002 and 2001, cash distributions received from the LLCs were approximately $68,000, $175,000 and $200,000, respectively. The principal assets of the LLCs are the land, buildings and leasehold improvements, the total of which at December 31, 2003 and 2002 was approximately $9.7 million and $9.4 million, respectively.

In accordance with the terms of the LLCs' operating agreements, the Property Manager charges the LLCs a management fee to offset its real estate management costs. The management fee is calculated as a percentage of the LLCs' monthly rent. For the years ended December 31, 2003, 2002 and 2001, total management fees charged to the LLCs were approximately $73,000, $90,000 and $82,000, respectively. The Property Manager also leases approximately 14,000 square feet of office and garage space in one of the LLCs for which it made annual lease payments of approximately $202,000 in 2001, 2002 and 2003.

Notes To Consolidated Financial Statements - continued

Note 5 - Fair Value of Financial Instruments

The fair value of certain financial instruments included in the accompanying consolidated balance sheet as of December 31, 2003 is as follows:

(In thousands)	Carrying Value	Fair Value
Long-term debt	$27,247	$30,985
Interest rate swaps	$ (345)	$ (345)

There are no quoted market prices for the Company's various long-term debt issues and thus, their fair values have been determined based on quoted market prices for securities similar in nature and in remaining maturities. 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 the Company's interest rate swaps represents the estimated cost to terminate these agreements as of December 31, 2003 based upon current interest rates.

The carrying values of the Company's cash, restricted cash, and short-term notes receivable approximate their fair values because of the short maturity dates of those financial instruments.

Note 6 - Benefit Plans

Pension Plan

The Company has a non-contributory, defined benefit pension plan (the "Plan") covering substantially all full-time employees. The benefits are formula-based, giving consideration to both past and future service as well as participant compensation levels. The Company's funding policy is to contribute annually up to the maximum amount deductible for federal tax purposes. Contributians are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The Plan uses December 31 for the measurement date to determine its projected benefit obligation and fair value of plan assets. The Plan uses January 1 as the measurement date to determine net periodic benefit costs. The changes in benefit obligation and plan assets were as follows:

Notes To Consolidated Financial Statements - continued

(In thousands)	December 31, 2003	2002
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 4,555	$ 3,651
Service cost	201	216
Interest cost	270	271
Actuarial (gain)/loss	(147)	497
Benefits paid, excluding expenses	(117)	(80)
Benefit obligation, end of year	$ 4,762	$ 4,555
Change in plan assets:		
Fair value of plan assets, beginning of year	$ 3,156	$ 3,234
Actual return (loss) on plan assets, net	537	(171)
Expenses	(11)	(25)
Employer contribution	222	198
Benefits paid, excluding expenses	(117)	(80)
Fair value of plan assets, end of year	$ 3,787	$13,156
The plan's funded status was as follows:		
Funded status	$ (975)	$(1,398)
Unrecognized net actuarial loss	1,378	1,859
Unrecognized transition asset	(42)	(56)
Unrecognized prior service cost	3	4
Net amount recognized	$ 364	$ 409
Amounts recognized in the consolidated balance sheets consisted of:		
Accrued retirement liability	$ (78)	$ (615)
Accumulated other comprehensive income	439	1,020
Intangible asset	3	4
Net amount recognized	$ 364	$ 409

	2003	2002
Weighted average assumptions used to value benefit obligations were as follows:		
Discount rate at the end of the year	6.25%	6.50%
Rate of compensation increase at the end of the year	3.00%	4.00%

Notes To Consolidated Financial Statements - continued

(In thousands)	2003	2002	2001
Components of net periodic benefit cost were as follows:			
Service cost	$201	$216	$206
Interest cost	270	271	243
Expected return on plan assets	(252)	(296)	(300)
Amortization of prior service cost	1	1	1
Amortization of transition asset	(14)	(14)	(14)
Recognized net actuarial loss	60	30	6
Net periodic benefit cost	$266	$208	$142

	2003	2002	2001
Weighted average assumptions used to calculate net periodic benefit cost were as follows:			
Discount rate at the beginning of the year	6.50%	7.50%	7.50%
Expected return on plan assets for the year (net of investment expenses)	8.00%	9.00%	9.00%
Rate of compensation increase at the beginning of the year	4.00%	5.00%	5.00%

Our expected long-term rate of return on pension plan assets is based on the Plan's expected asset allocation, expected returns on various classes of Plan assets as well as historical returns.

The projected benefit obligation, the accumulated benefit obligation and the fair value of plan assets for the pension plan were $4,761,896, $3,864,799 and $3,786,666, respectively, as of December 31, 2003 and $4,554,533, $3,771,130 and $3,156,461, respectively, as of December 31, 2002. Since the market value of the Company's Plan assets was lower than the Plan's accumulated benefit obligation, the Company recorded a minimum pension liability of approximately $78,000 and $615,000 at December 31, 2003 and 2002, respectively. This resulted in a decrease in the additional minimum liability for the Plan of approximately $581,000 in 2003.

In establishing its investment policy, the Company has considered the fact that the pension 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 prudently invested. Accordingly, the Company does not consider it necessary to adopt overly aggressive investment approaches that may expose the pension assets to severe depreciation in asset values during adverse markets. The investment policy should provide a high probability of generating a rate of

Notes To Consolidated Financial Statements - continued

return equal to at least 4% in excess of inflation over o long-term time horizon. The Company's investment strategy applies to its post-retirement plans as well as its pension plan.

The pension plan's investment strategy utilizes several different asset classes with varying risk/return characteristics. The following indicates the asset allocation percentage of the fair value of the plan assets as of December 31 as well as the pension plan's targeted allocation range:

	2003	2002	Asset Allocation Range
Equities	47%	50%	30% – 55%
Fixed income	53%	50%	45% – 90%
Other	-	-	0% – 5%
Total	100%	100%	

While not required to make contributions to the Plan, the Company anticipates that it will contribute approximately $240,000 to the Plan in 2004.

Defined Contribution Plan

In addition, the Company has a defined contribution plan covering substantially all full-time employees. Under this plan, the Company matches 100% of the first 3% of the employee's salary contributed to the plan. The matching employer's contributions, recorded as operating expenses, were $114,579, $115,210 and $109,325 for 2003, 2002 and 2001, respectively.

Other Post-retirement Benefits

The Company provides post-retirement medical benefits to current and retired employees through separate post-retirement medical plans for its union and non-union employees. Future benefits, payable to current employees upon reaching normal retirement date, are calculated based on the actual percentage of wage and salary increases earned from the plan inception date to normal retirement date. The post-retirement plans use December 31 for the measurement date to determine their projected benefit obligation and fair value of plan assets. These plans use January 1 as the measurement date to determine net periodic benefit cost except that the post-employment plan, which was initiated during 2003, used October 1 as such measurement date. The changes in benefit obligation and plan assets were as follows:

Notes To Consolidated Financial Statements - continued

(In thousands)	December 31, 2003	2002
Change in benefit obligation:		
Benefit obligation, beginning of the year	$ 992	$1,808
Service cost	59	33
Interest cost	69	59
Actuarial loss	173	124
Benefits paid, excluding expenses	-	(32)
Benefit obligation, end of year	$1,293	$ 992
Change in plan assets:		
Fair value of plan assets, beginning of the year	$ 184	$ 204
Actual return (loss) on plan assets, net	31	(20)
Employer contribution	156	32
Benefits paid, excluding expenses	-	(32)
Fair value of plan assets, end of year	$ 371	$ 184
The plan's funded status was as follows:		
Funded status	$ (922)	$ (808)
Unrecognized net actuarial loss	327	171
Unrecognized transition (asset)/obligation	-	-
Unrecognized prior service cost	52	67
Net amount recognized	$ (543)	$ (570)

	2003	2002
Weighted average assumptions used to value benefit obligations were as follows:		
Discount rate at the end of the year	6.00%	6.50%
Rate of compensation increase at the end of the year	3.00%	4.00%

Notes To Consolidated Financial Statements - continued

(In thousands)	2003	2002	2001
Components of net periodic benefit cost were as follows			
Service cost	$ 59	$ 33	$ 30
Interest cost	69	59	55
Expected return on plan assets	(22)	(15)	(12)
Amortization of prior service cost	15	15	15
Amortization of transition obligation	-	30	31
Recognized net actuarial loss	8	-	-
Net periodic benefit cost	$129	$122	$119

	2003	2002	2001
Weighted average assumptions used to calculate net periodic benefit cost were as follows			
Discount rate at the beginning of the year	6.50%	7.50%	7.75%
Expected return on plan assets for the year (net of investment expenses)	8.00%	9.00%	9.00%
Rate of compensation increase at the beginning of the year	4.00%	5.00%	5.00%

A one percent change in the assumed health care cost trend rate would not have had a material effect on the post-retirement benefit cost or the accumulated post-retirement benefit obligation in 2003.

The following indicates the asset allocation percentages of the fair value of total Plan assets for each major type of post-retirement plan assets as of December 31 as well as targeted percentages and the permissible range:

	2003	2002	Asset Allocation Range
Equities	54%	44%	30% – 55%
Fixed income	42%	53%	45% – 90%
Other	4%	3%	0% - 5%
Total	100%	100%	

The assets of the Company's PBOP Plan are held in VEBA trusts.

In 2003, the Company began offering post-employment medical benefits for employees who retire prior to their normal retirement age and who have met certain age and service requirements. The benefits, which are offered through a separate plan, allow continuity of coverage at group rates from the employee's retirement date until

Notes To Consolidated Financial Statements - continued

the employee becomes eligible for Medicare. The plan became effective October 1, 2003. If the employee elects to remain on the Company's group medical plan, the employee will be responsible for reimbursing the Company for the full monthly premium. Upon request, the spouse of the employee may remain on the Company's group medical plan as long as the full monthly premium is reimbursed to the Company. The post-employment plan is funded from the general assets of the Company. The changes in benefit obligation and plan assets were as follows:

(In thousands)

Change in benefit obligation:	
Benefit obligation at October 1, 2003	$ 359
Service cost	5
Interest cost	5
Actuarial gain	(18)
Benefits paid	-
Benefit obligation, end of year	$ 351

(In thousands)

The plan's funded status was as follows:	
Funded status at December 31, 2003	$(351)
Unrecognized net actuarial gain	(18)
Unrecognized prior service cost	353
Net amount recognized	$ (16)

Weighted average assumptions used to value benefit obligations were as follows:	
Discount rate at the end of the year	6.00%
Health care cost trend rate at the end of the year	9.00%

(In thousands)

Components of net periodic benefit cost were as follows:	
Service cost	$ 5
Interest cost	5
Amortization of prior service cost	6
Net periodic benefit cost	$ 16

Weighted average assumptions used to calculate net periodic benefit cost were as follows:	
Discount rate at the beginning of the year	6.00%
Expected return on plan assets for the year (net of investment expenses)	8.00%
Health care cost trend rate at the beginning of the year	9.00%

In December 2003, the FASB issued Staff Position (FSP) 106-1, "Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the "Act"). The Act provides

Notes To Consolidated Financial Statements - continued

for drug benefits for retirees over the age of 65 under a new Medicare Part D program. For employers like the Company, who currently provide retiree medical programs for former employees over the age of 65, there are subsidies available which are inherent in the Act. The Act entitles these employers to a direct tax-exempt federal subsidy. However, since the effective date of the Act was December 2003 and because most employers have not had time to consider the accounting considerations and that there is no appropriate accounting guidance for the federal subsidy, the FASB issued this FSP to allow employers a one-time election to defer recognition of the impact of the Act in the employer's accounting until formal guidance is issued. The Company has elected to defer recognition of the provisions of this Act until further accounting guidance is issued. As a result, the provisions of the Act are not reflected in the following disclosure. The issuance of formal accounting guidance may require a change to previously reported information. The Company is continuing to monitor the impact of the Act.

Note 7 - Stock Based Compensation Plans

The Company provides its officers and key employees incentive and non-qualified options on a discretionary basis pursuant to two stock option plans, the 1995 Stock Option Plan ("1995 Plan") and the 2000 Stock Option Plan ("2000 Plan").

The 1995 Plan, as amended, 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. The number of shares of common stock subject to issuance under the 1995 Plan is 75,000. At December 31, 2003, no further shares were available for future grant under the 1995 Plan.

The 2000 Plan, as amended, provides for 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 generally become exercisable immediately following the grant and expire ten years from the date of grant. The number of shares of common stock subject to issuance under the 2000 Plan is 150,000. At December 31, 2003, 141,501 shares were available for future grant under the 2000 Plan.

In accordance with SFAS No. 123, the Company accounts for stock-based compensation for employees under APB Opinion No. 25, *Accounting for Stock Issued to Employees,* using the intrinsic value method and has elected the disclosure-only alternative under SFAS No. 123.

The following table summarizes the activity under the stock option plans for the three-year period ended December 31, 2003:

Notes To Consolidated Financial Statements - continued

	Number Of Shares	Price Per Share	Weighted Average Price Per Share
Options outstanding at December 31, 2000	50,234	$8.12-$23.25	$18.86
Granted	29,704	20.39	20.39
Exercised	(8,468)	8.12-15.75	12.94
Canceled	(1,667)	20.39-23.25	22.11
Options outstanding at December 31, 2001	69,803	8.12-23.25	20.15
Granted	18,175	27.00	27.00
Exercised	(2,583)	8.12-15.75	11.33
Canceled	-	-	-
Options outstanding at December 31, 2002	85,395	8.12-27.00	21.88
Granted	50,000	24.10-26.85	25.20
Exercised	(11,701)	8.12-23.25	17.49
Canceled	(13,856)	20.39-27.00	24.47
Options outstanding at December 31, 2003	109,838	$8.12-$27.00	$23.53
Exercisable at December 31, 2003	89,838	$8.12-$27.00	$23.40
Exercisable at December 31, 2002	85,395	$8.12-$27.00	$21.88
Exercisable at December 31, 2001	69,803	$8.12-$23.25	$20.15

The following table summorizes information obout options outstanding and exercisable at December 31, 2003:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Of Shares Outstanding	Remaining Contractual Life (In Years)	Weighted Average Exercise Price Per Share	Number Of Shares Outstanding	Weighted Average Exercise Price Per Share
$ 8.12	501	3.00	$ 8.12	501	$ 8.12
$ 8.63	251	2.00	$ 8.63	251	$ 8.63
$ 9.50	501	4.00	$ 9.50	501	$ 9.50
$15.75	5,431	5.00	$15.75	5,431	$15.75
$20.39	20,069	7.00	$20.39	20,069	$20.39
$23.25	19,835	6.00	$23.25	19,835	$23.25
$24.10	30,000	9.58	$24.10	10,000	$24.10
$26.85	20,000	9.75	$26.85	20,000	$26.85
$27.00	13,250	8.00	$27.00	13,250	$27.00
	109,838			89,838	

Notes To Consolidated Financial Statements - continued

The weighted average fair value per share of options granted during 2003, 2002 and 2001 was $6.59, $7.99 and $4.96, respectively. The fair value of each option grant is estimated on the date of grant using the following assumptions :

	Year Ended December 31, 2003	2002	2001
Risk-free interest rate	3.30%	4.60%	5.08%
Expected dividend yield	3.42%	2.90%	4.70%
Expected lives	5 years	5 years	5 years
Expected volatility	36.00%	36.00%	34.00%

Note 8 - Shareholder Rights Plan

On April 20, 2000, the Company's Board of Directors adopted a Rights Agreement and declared a dividend of one preferred share purchase right ("Right") for each outstanding share of common stock, $1.00 par value. Each Right entitles the shareholder to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock of the Company at an exercise price of $85.00 per share, subject to adjustment. The Rights become exercisable in the event that a person or group acquires, or commences a tender or exchange offer to acquire, more than 10% of the Company's outstanding common stock. In that event, each Right will entitle the holder, other than the acquiring party, to purchase a number of common shares of the Company having a market value equal to two times the Right's exercise price. If the Company is acquired in a merger or other business combination at any time after the Rights become exercisable, the Rights will entitle the holder to purchase a certain number of shares of common stock of the acquiring company having a market value equal to two times the Right's exercise price.
The Rights are redeemable by the Company at a redemption price of $.01 per Right at any time before the Rights become exercisable. The Rights will expire on April 19, 2010, unless previously redeemed. Effective immediately prior to the execution of the merger agreement discussed in Note 9, the Rights Agreement was amended to provide that neither the merger agreement nor the transactions contemplated thereby would constitute an event that would trigger the exercisability of the Rights.

Note 9 - Commitments and Contingencies

Termination of Merger Agreement

On April 29, 2002, the Company entered into a definitive agreement with Philadelphia Suburban Corporation ("PSC") to merge into a wholly-owned subsidiary of PSC with shareholders of the Company receiving shares of PSC in the merger. The merger was subject to several conditions, including, among other things, approval by the

Notes To Consolidated Financial Statements - continued

shareholders of the Company and approval by the New Hampshire Public Utilities Commission ("NHPUC"). The review of the merger by the NHPUC and approval by the Company's shareholders was expected to occur in the first half of 2003.

However, on November 26, 2002, the Board of Aldermen of the City of Nashua, New Hampshire (the "City") adopted a resolution calling for a referendum to authorize the City to pursue the acquisition, by an eminent domain proceeding or otherwise, of all or a portion of Pennichuck's water system serving the residents of the City and others. The City's voters passed the referendum on January 14, 2003. On February 4, 2003, the Company announced that it had reached an agreement with PSC to terminate PSC's pending acquisition of the Company. The decision to terminate the merger agreement resulted from the City's ongoing efforts to acquire Pennichuck's utility plant and property by eminent domain. Expenses associated with the PSC merger transaction and related issues totaled approximately $231,000 and $1,946,000 for the years ended December 31, 2003 and 2002, respectively. Those expenses consisted of the following:

(In thousands)	2003	2002
Investment banking fees	$ -	$1,086
Legal and other fees relating to		
merger and regulatory approval	231	860
Total merger and related costs	$231	$1,946

Under current Internal Revenue Code regulations, costs relating specifically to the merger transaction may be deductible for Federal income tax purposes in the year in which the merger is terminated. As a result, the Company has realized approximately $1.5 million of merger-related direct costs for Federal income tax purposes in 2003.

Pending Municipalization Efforts

The City formally notified the Company's utility subsidiaries on February 5, 2003 of its intention to acquire all or a portion of their plant and property. The notification letters from the City stated that the City was acting pursuant to New Hampshire's utility municipalization statute. On March 25, 2003, the Company's three utilities notified the City of their decision not to sell their plant and property. Under New Hampshire statutes, a municipality may seek the NHPUC's authorization to compel the sale of utility assets through an eminent domain proceeding if the utility does not agree to sell the assets voluntarily. By letter dated March 26, 2003, the City indicated its intent to pursue such an eminent domain proceeding. The City and the Company have had discussions since that time regarding the City's desire to acquire the Company's assets, the particular assets that the City is interested in acquiring and the price that the City would be willing to pay for those assets.

Notes To Consolidated Financial Statements - continued

On April 8, 2003, the Town of Pittsfield formally notified Pittsfield Aqueduct Company, Inc. that it wished to acquire the plant and property of that company. The letter indicated that the Town was providing its notification pursuant to the New Hampshire utility municipalization statute. By letter dated May 28, 2003, Pittsfield Aqueduct Company, Inc. notified the Town of Pittsfield of its decision not to sell its plant and property.

To date, neither the City of Nashua nor the Town of Pittsfield has commenced an eminent domain proceeding at the NHPUC. If such a proceeding were commenced, it is not certain whether either the City or the Town would ultimately choose to complete the acquisition of any portion of the property of the Company's utility subsidiaries even if the NHPUC ultimately approved such an acquisition and established a price for it.

On February 4, 2004, the Company filed a Petition for Declaratory Judgment against the City, seeking a determination by the New Hampshire Superior Court that, among other things, the State utility municipalization statute is unconstitutional and the City has failed to commence eminent domain proceedings at the State Public Utilities Commission in a timely fashion and therefore is barred from continuing the current utility municipalization process against the Company.

The Company cannot predict the ultimate outcome of these matters. It is possible that, if the acquisition efforts of the City and/or the Town of Pittsfield are successful, the financial position of the Company would be materially impacted. No adjustments have been recorded in the accompanying condensed consolidated financial statements for these uncertainties.

Regulatory Investigation

The Company is the subject of an investigation by the New Hampshire Bureau of Securities Regulation (the "Bureau") and the Securities and Exchange Commission (the "SEC"). The scope of the investigation relates generally to the Company's commercialization of real estate through joint ventures involving its Southwood Corporation subsidiary and, in particular, to certain of the Company's public disclosures regarding various joint venture transactions. Specifically, the Bureau and the SEC have alleged that in Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB, the Company improperly disclosed the purchase of a home by Maurice L. Arel, the Company's former President who is also a target of the investigation, from one of the Company's real estate joint ventures as being "on the same terms which would be given to any independent third-party". In fact, the purchase was not made on such terms, and the Company believes that Mr. Arel received a benefit in the range of $50,000 to $75,000 in connection with the purchase.

In addition, the Bureau and the SEC have alleged that the Company failed to properly disclose payments from the Company's real estate joint ventures to a landscaping company with which one of Mr. Arel's sons was

Notes To Consolidated Financial Statements - continued

involved. During the seven-year period from 1996 to 2002, six of the Company's joint ventures engaged for various landscaping projects a company with which one of Mr. Arel's sons was involved. The joint ventures' payments to that landscaping company totaled approximately $517,600 during that period. In three of those years, the aggregate payments for the year exceeded $60,000. In 1999, the joint ventures paid the landscaping company a total of $259,000, the greatest amount that the joint ventures paid to the landscaping company during a single year.

The regulators have also alleged that the Company failed to disclose the fact that nearly all of its real estate joint ventures had been formed with the same developer, and that the Company did not exercise proper oversight of the activities of those various joint ventures, including by failing to obtain or to keep adequate records, such as copies of financial records, contracts, correspondence or other material information.

The Company's board of directors retained legal counsel to conduct an independent review of the allegations, under the direction of the Company's Audit Committee, and instructed the Company's executive officers and counsel to cooperate fully with the investigation by the Bureau and the SEC. That independent review is now substantially complete and the Company's counsel has briefed the regulators on the board's findings. In addition, and as a result of the independent review, Mr. Arel's employment with the Company and its subsidiaries was terminated in May 2003.

The Bureau and the SEC could seek to impose fines, penalties or other sanctions upon the Company as a result of their respective investigations. In November 2003, the Bureau and the SEC indicated a willingness to consider a global settlement of their claims against the Company and against Mr. Arel. Although no agreement or understanding has been reached, the framework of the settlement that is under consideration would consist of a fund to be established for the benefit of the Company's shareholders, a fine to be paid to the Bureau, and a payment to the Bureau to defray its expenses. In addition to the negotiations with the Bureau and the SEC regarding the proposed settlement, the Company is also engaged in negotiations with Mr. Arel as to what portion, if any, of the settlement amounts he would be responsible for paying. There can be no assurance that a settlement agreement with the regulators and Mr. Arel will in fact be reached. The Company has recorded as an expense in 2003 a liability for this settlement based on the best estimates of the Company and its legal counsel.

Operating Leases

The Company leases certain office equipment under operating lease agreements expiring through October 2008. Total rent expense was approximately $39,500, $24,300 and $17,600 for the years ended December 31, 2003, 2002 and 2001, respectively.

Notes To Consolidated Financial Statements - continued

The Company's remaining lease commitments for all leased equipment as of December 31, 2003 are as follows:

(In thousands)	Amount
2004	$ 47
2005	47
2006	31
2007	19
2008	5
	$149

Note 10 – Guarantees

As discussed in Note 4, Southwood holds a 50% interest in four limited liability companies known as HECOP I, HECOP II, HECOP III and HECOP IV, each of which owns land and a commercial office building, subject to a mortgage note with a local bank. The mortgage notes, totaling approximately $9.2 million, which are not included in the accompanying condensed consolidated balance sheets, are each secured by the underlying real property. In addition, Southwood is contingently liable on one-half of the outstanding balance, and as such, it has issued a guarantee to the mortgagee for its share of the guaranteed indebtedness. At December 31, 2003, Southwood was contingently liable on approximately $4.6 million of mortgage indebtedness associated with the limited liability companies.

Note 11 – Supplemental Disclosures on Cash Flow and Non-Cash Items

Supplemental cash flow information for the three years ended December 31 is presented below:

(In thousands)	2003	2002	2001
Cash paid during the year for			
Interest	$1,875	$1,931	$1,972
Income taxes	$ 132	$ 645	$1,215
Non-cash items			
Deferred gain on land sale	$1,224	$ -	$ -
Contributions in aid of construction	$1,811	$3,168	$2,077
Minimum pension liability adjustment			
Accrued pension liability	$ 78	$ 615	$ -
Deferred tax and other	$ 222	$ 405	$ -
Other comprehensive income (loss)	$ 454	$(619)	$ -

Notes To Consolidated Financial Statements - continued

Note 12 - Business Segment Information

The Company follows the provisions of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information.* SFAS No. 131 establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. The Company's operating activities are grouped into three primary business segments as follows:

Water Utility - Involved in the collection, treatment and distribution of potable water for domestic, industrial, commercial and fire protection service in the City of Nashua and certain surrounding communities in southern and central New Hampshire.

Real Estate - Involved in the ownership, development, management and sale of industrial and residential property in Nashua and Merrimack, New Hampshire.

Contract Operations And Other - Includes the contract operations and laboratory testing activities of the Service Corporation and sundry activities of the Company.

The following table presents information about the Company's three primary business segments:

(In thousands)	2003	2002	2001
Operating revenues			
Water utility	$18,680	$18,830	$17,412
Real estate	949	3,088	4,156
Contract operations & other	1,759	1,504	1,186
Total operating revenues	$21,388	$23,422	$22,754
Operating income			
Water utility	$ 4,113	$ 6,045	$ 5,003
Real estate	846	1,338	3,244
Contract operations & other	236	265	305
Total operating income	$ 5,195	$ 7,648	$ 8,552
Capital additions			
Water utility	$ 8,968	$ 8,413	$ 8,211
Real estate	-	-	-
Contract operations & other	24	30	-
Total capital additions	$ 8,992	$ 8,443	$ 8,211

Notes To Consolidated Financial Statements - continued

(In thousands)

Total assets			
Water utility	$92,031	$85,714	$79,458
Real estate	2,651	1,787	3,524
Contract operations & other	2,528	3,481	4,648
Total assets	$97,210	$90,982	$87,630
Depreciation and amortization expense			
Water utility	$ 2,884	$ 2,681	$ 2,590
Real estate	-	-	413
Contract operations & other	30	94	44
Total depreciation and amortization expense	$ 2,914	$ 2,775	$ 3,047

The operating revenues within each business segment are sales to unaffiliated customers. Operating income is defined as segment revenues less operating expenses including allocable parent company expenses attributable to each business segment as shown below.

	2003	2002	2001
Allocated parent expenses:			
Water utility	$ 709	$ 444	$ 522
Real estate	14	49	59
Contract operations & other	60	33	26
Total allocated parent expenses	$ 783	$ 526	$ 607

The general and administrative expenses allocated by the parent company to its subsidiaries are calculated based primarily on a ratio of subsidiary revenues to consolidated revenues.

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

Within the water utility business segment, one customer accounted for approximately 10 percent of water utility revenues in 2003, 2002 and 2001. During 2003, 2002 and 2001, the water utility recorded approximately $1,847,000, $1,842,000 and $1,809,000, respectively, in water revenues which were derived from fire protection and other billings to the City of Nashua. As of December 31, 2003 and 2002, this customer accounted for approximately 11 percent and 10 percent, respectively, of total accounts receivable.

Notes To Consolidated Financial Statements - continued

Note 13 - Quarterly Financial Data (Unaudited)

(In thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2003				
Revenues	$4,861	$5,262	$6,394	$4,871
Operating Income	964	1,375	2,209	647
Net income	147	393	1,022	(315)
Earnings per common share				
Basic	$ 0.06	$ 0.16	$ 0.43	$(0.13)
Diluted	$ 0.06	$ 0.16	$ 0.43	$(0.13)
Year Ended December 31, 2002				
Revenues	$6,865	$5,053	$6,537	$4,967
Operating Income	1,672	1,459	2,910	1,606
Net income	630	(709)	1,377	1,043
Earnings per common share				
Basic	$ 0.26	$(0.30)	$ 0.58	$ 0.44
Diluted	$ 0.26	$(0.30)	$ 0.57	$ 0.44

Five-Year Selected Data[1]

	2003	2002	2001	2000	1999
Operating revenues *(in $000's)*	$21,388	$23,422	$22,754	$23,671	$17,809
Net income *(in $000's)*	$ 1,247	$ 2,341	$ 3,612	$ 3,683	$ 2,616
Earnings per share - basic	$ 0.52	$ 0.98	$ 1.52	$ 1.56	$ 1.12
Cash dividends declared per share of common stock	$ 0.84	$ 0.813 *(2)*	$ 0.76	$ 0.73	$ 0.69
Total assets *(in $000's)*	$97,210	$90,982	$87,630	$82,880	$75,581
Long-term debt *(in $000's)*	$27,247	$27,214	$27,420	$27,237	$28,266
Weighted average shares outstanding – basic *(in $000's)*	2,393	2,391	2,382	2,361	2,328
Book value per share	$ 12.61	$ 12.72	$ 12.91	$ 12.17	$ 11.27
Utility plant additions *(in $000's)*	$ 8,968	$ 8,413	$ 8,211	$ 7,735	$ 6,718
Water delivered (million gallons per day)	14.25	15.23	16.18	15.86	14.91
Mains (miles)	544	533	521	495	481
Services:					
Core & Communities	23,670	23,348	22,808	22,380	22,213
Pittsfield Aqueduct	635	640	639	628	625
Pennichuck East	4,597	4,475	4,277	4,139	3,804
Meters	28,985	29,015	28,646	27,243	26,642
Hydrants	2,756	2,717	2,664	2,634	2,583
Rainfall	48.99	43.07	30.64	57.62	42.87
Employees	82	81	80	72	71

(1) Prior years' per share amounts have been restated to reflect the four for three stock split in December 2001.

(2) Includes a one-time special dividend of $.033 per share.

Pennichuck Corporation
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800 553 5191
603 882 5191
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www.pennichuck.com

Financial Highlights

Consolidated Revenues *(in 000's of dollars)*

1999	2000	2001	2002	2003
$17,809	$23,671	$22,754	$23,422	$21,388

Net Income *(in 000's of dollars)*

1999	2000	2001	2002	2003
$2,616	$3,683	$3,612	$2,341	$1,247

Total Assets *(in 000's of dollars)*

1999	2000	2001	2002	2003
$75,581	$82,880	$87,630	$90,982	$97,210

Basic Earnings Per Share

1999	2000	2001	2002	2003
$1.12	$1.56	$1.52	$.98	$.52

Dividends Per Share

1999	2000	2001	2002	2003
$.69	$.73	$.76	$.813	$.84

Board of Directors and Officers

Board of Directors

Donald L. Correll, President and Chief Executive Officer, Pennichuck Corporation

Joseph A. Bellavance, President, Bellavance Beverage Company, Inc.

Steven F. Bolander, Dean, Whittemore School of Business and Economics, University of New Hampshire

Michelle L. Chicoine, Chief Financial Officer, St. Paul's School

Charles E. Clough, Chairman, Nashua Corporation, retired

Robert P. Keller, Managing Director, Triumph Investment Fund, LP

John R. Kreick, Phd., Chief Executive Officer, Lockheed Sanders, retired

Hannah M. McCarthy, President, Daniel Webster College

Martha E. O'Neill, Esq., Clancy and O'Neill, P.A.

Officers

Donald L. Correll, President, Chief Executive Officer

Stephen J. Densberger, Executive Vice President, Pennichuck Corporation
President, Pennichuck Water Service Corporation

Charles J. Staab, Vice President, Chief Financial Officer and Treasurer

Bonalyn J. Hartley, Vice President, Administration

Donald L. Ware, Senior Vice President, Operations, and Chief Engineer

Corporate Secretary

Richard A. Samuels, Esq.

"Continually improving our infrastructure, that's what we need to do to provide safe, affordable drinking water for our customers."

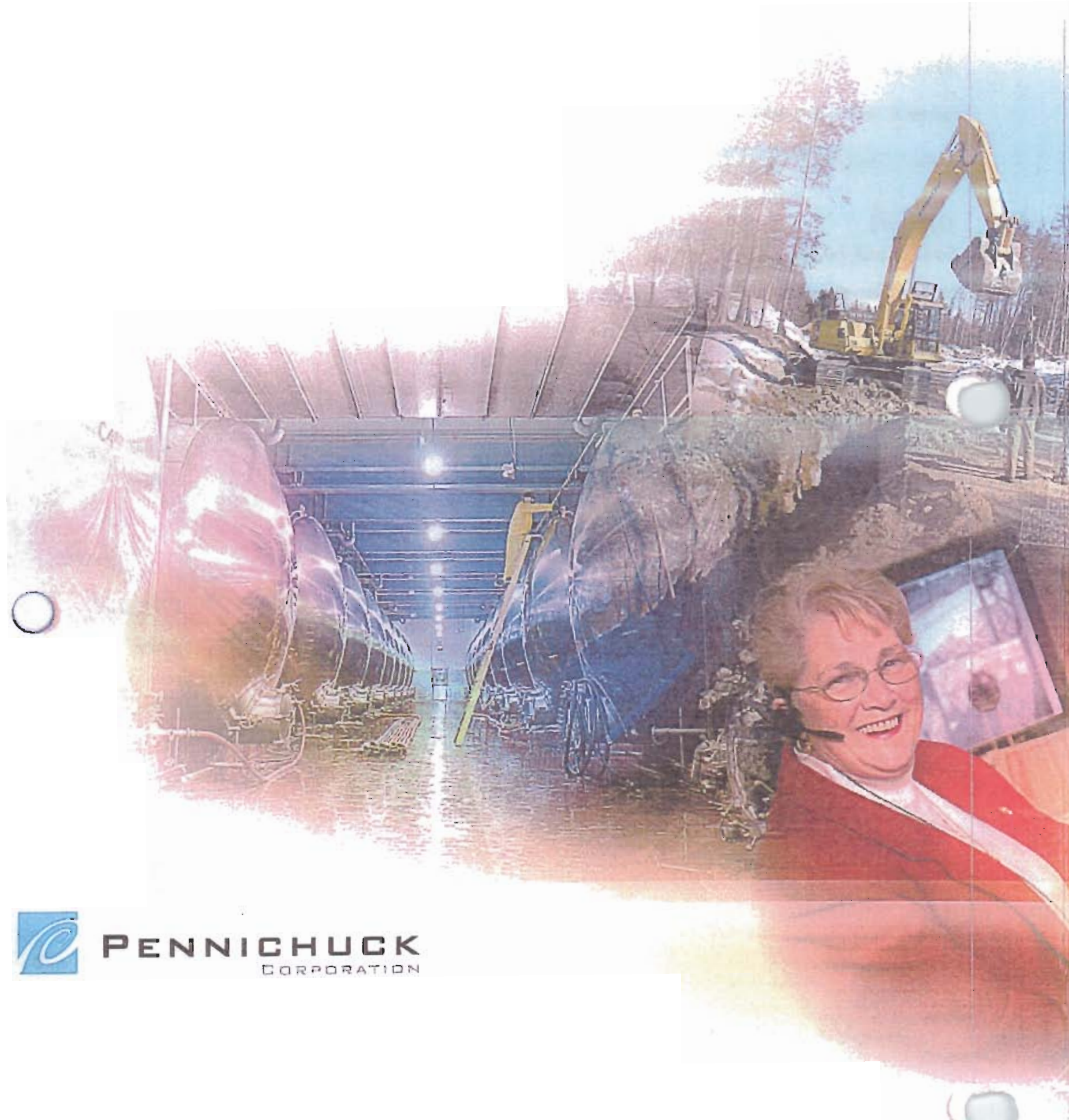
Donald L. Ware
Senior Vice President, Operations, and Chief Engineer,
Pennichuck Corporation

Shareholder Information

The annual report on Form 10-K of Pennichuck Corporation for the year ended December 31, 2003, as filed with the Securities and Exchange Commission, may be obtained from the Company by contacting Shareholder Relations, Pennichuck Corporation, 25 Manchester Street, PO Box 1947, Merrimack, NH 03054-1947.

Stock Transfer Agent and Registrar: American Stock Transfer & Trust Company, Shareholder Relations, 59 Maiden Lane, Plaza Level, New York, NY 10038, 800/937-5449, www.amstock.com.

Pennichuck Corporation's Annual Shareholders' Meeting will be held April 23, 2004 at 3:00 pm, at the Nashua Marriott Hotel, 2200 Southwood Drive in Nashua, New Hampshire.



PENNICHUCK CORPORATION

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Pennichuck Corporation Annual Report

02

Shareholder Information

The annual report on Form 10-K of Pennichuck Corporation for the year ended December 31, 2002, as filed with the Securities and Exchange Commission, is included in this annual report on pages 1 through 70 without exhibits. A list of exhibits to the Form 10-K is set forth on the Exhibit Index included in the Form 10-K filed with the Commission. Copies of any exhibit to the Form 10-K may be obtained from the Company by contacting Shareholder Relations, Pennichuck Corporation, 4 Water Street, Nashua, NH 03061-0448. Certain information referenced in Part III of the annual report on Form 10-K is incorporated by reference from the Company's proxy statement for the annual meeting of shareholders to be held on May 27, 2003.

Stock Transfer Agent and Registrar: American Stock Transfer & Trust Company, Shareholder Relations, 59 Maiden Lane, Plaza Level, New York, New York 10038, 800/937-5449, www.amstock.com.

Pennichuck Corporation's Annual Shareholders' Meeting will be held Tuesday, May 27, 2003 at 3:00 p.m., at the Nashua Marriott Hotel, 2200 Southwood Drive in Nashua, New Hampshire.

Financial Highlights

Total Assets
(in 000's of dollars)

Net Income
(in 000's of dollars)

Dividends per Share

Consolidated Revenues
(in 000's of dollars)

Basic Earnings per Share

Dear Shareholder:

2002 was a dynamic year, led by our proposed merger with Philadelphia Suburban Corporation (PSC). After a comprehensive competitive process, your Board of Directors determined that a strategic combination with PSC offered the best opportunity for Pennichuck to maximize shareholder value. Before the merger could close, various groups, including the City of Nashua, began exploring municipalization of the Company.

In early 2003, these activities led to the passage of a referendum authorizing the City of Nashua to continue the pursuit of the acquisition of all or a portion of the Company's regulated water assets through an eminent domain proceeding. The City of Nashua subsequently notified Pennichuck of its intent to pursue the acquisition. Based on these events, Pennichuck and PSC agreed to mutually terminate our merger activities. In response to the City's notification, your Board of Directors voted unanimously that the acquisition of Pennichuck's regulated assets by the City of Nashua would not be in the best interest of its shareholders.

In 2002, the New Hampshire Bureau of Securities Regulation and the Securities and Exchange Commission began investigations of Pennichuck Corporation, relating primarily to various real estate development joint ventures. The Company's Board of Directors has retained legal counsel to conduct an independent review of such matters, and the investigations continue.

From an operating perspective, total consolidated revenues for the company in 2002 were $23.4 million, up from $22.8 million in 2001. Net income was $2.34 million as compared to $3.6 million in 2001. Consolidated earnings per share were $0.98 compared to $1.52 the previous year. Both net income and earnings per share were affected by approximately $2 million of merger related expenses. Excluding the effect of these expenses, net income for 2002 would have been $3.53 million and earnings per share $1.48. A dividend of $.813 per share was paid in 2002, compared to $.76 in 2001.

Annual revenue from our three regulated water utilities was $18.8 million in 2002 versus $17.4 million in 2001. This increase was principally due to a temporary rate increase granted to Pennichuck Water Works during the third quarter of 2001, which was finalized in the first quarter of 2002 and resulted in a permanent rate increase of 14.43%. Revenues from our non-regulated water business and other activities increased from $1.2 million in 2001 to $1.5 million last year. This revenue increase was due to growing enrollment in our WaterTight Protection Program, the addition of 12 new non-transient community water systems, and revenue from our first full year of contract operations associated with the Town of Salisbury, Massachusetts. Our real estate subsidiary, The Southwood Corporation, generated revenues of

$3.1 million during 2002, primarily from the sale of the remaining acreage in Southwood Corporate Park to a regional developer. Real estate revenues for 2001 were approximately $4.2 million.

During 2002, we continued to make significant improvements to deliver quality water and service to our customers including:

- Replacing the filtration media in the treatment plant for Pennichuck Water Works.
- Overseeing the installation and replacement of 66,000 feet of water mains, including over 6,500 feet of aging water mains in Nashua and replacing 11,000 feet of water main in Raymond, New Hampshire.
- Installing radio read units to increase meter reading efficiency in Pittsfield, New Hampshire.
- Initiating a Direct Payment Plan that enables customers to pay their bills via electronic withdrawal from their checking accounts.
- Conducting a vulnerability assessment of our infrastructure to increase security around our water facilities.

Effective April 2, 2003, your Board announced that I would serve as Chairman and Chief Executive Officer on an interim basis following the retirement of Maurice L. Arel. Mr. Arel served as your President, Chief Executive Officer, and Director since 1985. My top three priorities will be to:

- Assure the delivery of the highest quality water service to the Company's customers.
- Work with the Board's search committee to select a qualified candidate to become CEO for the long-term.
- Seek to resolve the ongoing investigations by the New Hampshire Bureau of Securities Regulation and the Securities and Exchange Commission.

I have served on your Board of Directors since 1998, and I continue to be impressed with the quality of the Pennichuck workforce and the excellent job our people do in providing high quality service to our customers. This year will prove challenging, but we will continue to pursue growth strategies that will enhance shareholder value, provide quality service to our customers and create a positive work environment for our employees. Thank you for your support.

Sincerely,

John Kreick

John R. Kreick, PhD.
Chairman and Chief Executive Officer

Board of Directors and Officers

Board of Directors

Joseph A. Bellavance, President, Bellavance Beverage Company, Inc.

Charles E. Clough, Chairman, Nashua Corporation, Retired

Stephen J. Densberger, Executive Vice President, Pennichuck Corporation

Robert P. Keller, Chairman and Chief Executive Officer, InStar Services Group, Inc.

John R. Kreick, PhD., Chairman of the Board, Chief Executive Officer, Pennichuck Corporation;
Chief Executive Officer, Lockheed Sanders, Retired

Hannah M. McCarthy, President, Daniel Webster College

Martha E. O'Neill, Esquire, Clancy and O'Neill, P.A.

Charles J. Staab, Vice President, Chief Financial Officer and Treasurer, Pennichuck Corporation

Executive Officers

John R. Kreick, PhD., Chief Executive Officer

Stephen J. Densberger, Executive Vice President

Charles J. Staab, Vice President, Chief Financial Officer and Treasurer

Bonalyn J. Hartley, Vice President-Administration

Donald L. Ware, Vice President, Chief Engineer

Corporate Secretary

Richard A. Samuels, Esquire

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended December 31, 2002

[ ] 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)

New Hampshire	**02-0177370**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Four Water Street, Nashua, New Hampshire	**03061**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **603-882-5191**

Securities registered under Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered under Section 12(g) of the Act:

Common Stock (par value $1.00 per share)
(Title of Class)
Preferred Stock Purchase Rights
(Title of Class)

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 _X_ No ___

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant based on the last sales price on June 28, 2002 of the registrant's Common Stock as reported on the Nasdaq National Market System was $63,748,323. For purposes of this calculation, the "affiliates" of the Registrant include its directors and executive officers. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

The number of shares of the Registrant's Common Stock, $1 par value, outstanding as of March 31, 2003 was 2,391,439.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part III of this report is incorporated by reference to the registrant's definitive proxy statement for the 2003 annual meeting of the registrant's shareholders to be filed with the Commission; or, will be filed by amendment to this report.

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PART I:

Item 1. BUSINESS

Overview

Pennichuck Corporation (the "Company") is a holding company based in Nashua, New Hampshire. Its principal operating subsidiaries are engaged primarily in the collection, storage, treatment, distribution and sale of potable water throughout southern and central New Hampshire. These subsidiary corporations – Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. ("Pittsfield"), are each engaged in business as a regulated public utility, subject to the jurisdiction of the New Hampshire Public Utilities Commission (the "NHPUC"). They collectively serve approximately 28,800 residential and commercial and industrial customers. The Company was formed in 1983 following the reorganization of Pennichuck Water Works, which was first established in 1852, into a dedicated water utility. At the same time, several tracts of land, formerly held for watershed protection purposes, were transferred to The Southwood Corporation ("Southwood"). Southwood is involved in the development of commercial and residential real estate. The Company also conducts non-regulated, water-related management services and contract operations through another subsidiary, Pennichuck Water Service Corporation (the "Service Corporation").

Our Water Business

Pennichuck is franchised by the NHPUC to gather and distribute water in the City of Nashua, New Hampshire, and in portions of the towns of Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford and Plaistow, New Hampshire. Pennichuck has transmission mains which directly interconnect its core system in Nashua with the surrounding towns of Amherst, Hudson, Merrimack and Milford. Its core system, which services nearly 21,900 customers, accounts for 95% of Pennichuck's revenues. Its franchises in the remaining towns consist of stand-alone satellite water systems serving over 1,900 customers. Pennichuck has no competition in its core franchise area. Currently, approximately 24% of its water revenues are derived from commercial and industrial customers and approximately 55% from residential customers, with the balance being derived from fire protection and other billings to municipalities, principally the City of Nashua and the towns of Amherst, Merrimack and Milford. Pennichuck's annual water revenues were approximately $14.74 million for calendar year 2002.

Pennichuck East was organized in 1998 to acquire certain water utility assets from the Town of Hudson, New Hampshire ("Hudson"), following its acquisition of those assets from an investor-owned water utility which previously served Hudson and surrounding communities. Pennichuck East is franchised to gather and distribute water in the New Hampshire towns of Litchfield, Pelham, Windham, Londonderry, Derry, Raymond and Hooksett, which are areas adjacent to the service franchise served by Pennichuck. Pennichuck East has no competition in its core franchise area. The water utility assets owned by Pennichuck East consist principally of water transmission and distribution mains, hydrants, wells, pump stations and pumping equipment, water services and meters, easements and certain tracts of land. Pennichuck East serves approximately 4,300 customers and annual water revenues were approximately $3.09 million for calendar year 2002.

Pittsfield was acquired by the Company in 1998 and serves approximately 640 customers in and around Pittsfield, New Hampshire with annual water revenues of approximately $390,000. Pittsfield has no competition in its franchise area.

Regulation

The Company's water utilities are regulated by the NHPUC with respect to their water rates, financings and provision of service. New Hampshire law provides that utilities are entitled to charge rates which permit them to earn a reasonable return on the cost of the property employed in serving its customers, less accrued depreciation, contributed capital and deferred income taxes ("Rate Base"). The cost of capital permanently employed by a utility in its utility business marks the minimum rate of return which a utility is lawfully entitled to earn on its Rate Base. Pennichuck's water rates that were in effect during 2002 were based on a March 2002 NHPUC order in which Pennichuck was granted an overall permanent rate increase of 14.43% based on an overall rate of return of 8.58% and an approved rate base of approximately $43.1 million. Pennichuck East is authorized an overall rate of return of 8.37% on an approved rate base of approximately $7.5 million. Pittsfield is authorized an overall rate of return of approximately 10% on an approved rate base of approximately $1.6 million.

The Company's water utilities are subject to the water quality regulations issued by the United States Environmental Protection Agency ("USEPA") and the New Hampshire Department of Environmental Services ("NHDES"). The USEPA is required to periodically set new maximum contaminant levels for certain chemicals as required by the federal Safe Drinking Water Act ("SDWA"). The quality of the Company's water utilities' treated water currently meets or exceeds all current standards set by the USEPA and the NHDES.

Pennichuck's filtration plant in Nashua is impacted by the Interim Enhanced Surface Water Treatment Rule ("IESWTR") which establishes a new turbidity standard of 0.3 NTU. Pennichuck is in the process of evaluating alternatives to meet the new IESWTR turbidity standard, and it expects to determine what modifications will be required to its filtration plant by the end of 2003.

Two of Pennichuck's small community water systems have wells that produce water with arsenic levels in excess of the new standard of 10 ppb. It will be necessary for Pennichuck to install arsenic treatment systems at these locations. Pennichuck's and Pennichuck East's remaining community water systems have wells that produce water meeting the new arsenic standard.

Capital expenditures associated with federal and State water quality standards have historically been recognized and approved by the NHPUC for inclusion in our utilities' water rates.

Contract and Real Estate Operations

The Company formed the Service Corporation to conduct its non-regulated, water-related activities. Its activities initially included providing contract operations and maintenance, water testing and billing services to municipalities. In 1998, the Service Corporation entered into a long-term agreement with the Town of Hudson to provide operations and maintenance contract services to the Town with respect to the water utility assets it acquired from an investor-owned water utility. In September 2001, the Service Corporation also entered into a long-term agreement with the Town of Salisbury, Massachusetts to perform similar operations and maintenance services.

The NHDES has mandated water quality standards for non-transient, non-community water systems ("NTNCWS") – defined as public facilities such as schools, apartment and office buildings accommodating more than 25 persons and served by a community well. There are an estimated 600 such NTNCWS in New Hampshire which will require the services of a certified water operator, such as the Service Corporation, in order to meet the mandates of the NHDES. Accordingly, the Service Corporation is actively pursuing new contracts under which it would serve as a certified water operator and provide various water-related monitoring, maintenance, testing and compliance reporting services for these systems in New Hampshire. During 2002, the Service Corporation provided such services pursuant to 52 operating contracts.

Southwood, the Company's real estate subsidiary, was organized for the purpose of owning, developing, selling and managing approximately 1,088 acres of undeveloped land in Nashua and Merrimack, New Hampshire, formerly owned by Pennichuck Water Works for watershed protection purposes.

Since 1988, Southwood has been involved in the planning and development of Southwood Corporate Park, a 65-acre commercially zoned land parcel located in Nashua, New Hampshire. From 1988 through 2001, Southwood sold four lots totaling 25 acres in the Corporate Park. In January 2002, Southwood sold the remaining 40 acres to a regional real estate developer (the "Developer") under the terms of an option agreement between Southwood and the Developer. Under that 1995 agreement, the Developer paid to Southwood an option fee each year equal to the annual carrying costs associated with that land.

In September 1997, Southwood and the Developer formed Westwood Park LLC ("Westwood") to develop a 404-acre tract of land in northwest Nashua zoned for park-industrial use. Southwood conveyed the land to Westwood in exchange for a 60% interest in Westwood. Since 1997, Westwood has sold four parcels totaling approximately 364 acres to third parties, leaving a balance of approximately 40 acres which are restricted in use for future groundwater supplies.

Southwood holds a 50% ownership interest in HECOP I, LLC, HECOP II, LLC and HECOP III, LLC, which are limited liability corporations formed to construct and own a 39,000 square foot, a 42,000 square foot and a 66,000 square foot office building, respectively, located in Merrimack, New Hampshire. As of December 31, 2002, approximately 121,000 square feet had been leased to third parties under long-term lease agreements. Southwood also holds a 50% ownership interest in HECOP IV, LLC formed in May 2002. As of December 31, 2002, HECOP IV's principal asset was approximately 9.1 acres of raw land available for future commercial development.

In July 1998, Southwood entered into a joint venture known as Heron Cove at Bowers Pond LLC ("Heron Cove") for the development of an 87 unit, single-family community located in Merrimack, New Hampshire. Under the terms of the joint venture agreement, Southwood conveyed the related land parcel to Heron Cove in exchange for a non-interest bearing note secured by a second mortgage on the real estate conveyed. Southwood holds a 50% ownership interest in this joint venture. As of December 31, 2001, all 87 units had been constructed and sold to third parties, and this LLC was closed out in 2002.

Financial Information About Industry Segments

The business segment data of the Company and its subsidiaries for the latest three years is presented in "Note 12 - Business Segment Information" in the accompanying Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K Report.

Employees

The Company, through its principal subsidiary Pennichuck, employs 81 permanent, full-time employees and officers. Of these, there are 44 management and clerical employees who are non-union. The remaining employees are members of the United Steelworkers Union. The current union contract, which was re-negotiated in February 2002, expires in February 2007. In the opinion of management, employee relations are satisfactory.

RISK FACTORS

Risks Related to the Company's Business

The City of Nashua's use of power of eminent domain to acquire certain of the water utility assets of the Company may result in material, adverse consequences to the Company and its shareholders.

The Company is involved in ongoing proceedings with the City of Nashua regarding the City's desire to acquire all or a portion of the Company's water utility assets. The City has determined to pursue such acquisition pursuant to its power of eminent domain. Separately, several other communities whose residents are served by one or more of the Company's subsidiaries have expressed interest in forming a regional water authority for the purposes of acquiring and operating a substantial portion of the Company's water related assets. The acquisition of Company assets by eminent domain would be highly uncertain and likely involve protracted proceedings before the New Hampshire Public Utilities Commission ("NHPUC"). The Company's shareholders are not required to ratify or approve any such forced sale of assets, or the price thereof, if so approved by the NHPUC. Given the highly integrated nature of the Company's businesses, a forced sale of some or all of the Company's water related assets may result in increased costs and operating inefficiencies borne by the remaining assets of the Company not so acquired. Additionally, the Service Corporation's ability to service its existing contracts as well as pursue additional operating contracts may be impaired. There is no assurance that the City of Nashua or a regional water authority, if any, would be successful in acquiring some or all of the Company's assets by eminent domain, nor in such case is there any assurance as to the price determined by the NHPUC to be paid for those assets.

Risks Related to Water Business

The Company's main source of revenues and earnings is its water utility operations. The water supply and distribution industry is subject to regulations and uncertainties which affect the Company and its financial operations in varying degrees.

Rate Regulation. The Company's water utility subsidiaries, Pennichuck, Pennichuck East and Pittsfield are regulated by the NHPUC with respect to the rates we charge our customers for water and the amount of our capital and debt financing. The profitability of our water operations is largely dependent on the timeliness and adequacy of rate relief allowed by the NHPUC.

Regulatory Lag. The NHPUC generally provides our water utilities with the opportunity to earn a rate of return on our capital invested in property used to serve our customers. However, a delay, known as "regulatory lag," normally occurs between the time capital is invested and the effective date of increased water rates, which reflect that investment.

Water Quality Concerns; Changes in Regulatory Standards. Water utility companies are always subject to certain water quality risks related to environmental contamination. Our water systems have water treatment and alternate water source and storage facilities available as short-term sources of supply in the event of contamination of one of our water sources. While our treated water currently meets or exceeds all standards set by federal and state authorities, it is possible that new or stricter standards could be imposed that will raise our operating costs significantly. Although these costs would likely be recovered in the form of higher rates, there can be no assurance that the NHPUC would approve a rate increase to recover such costs.

Dam Safety. Pennichuck initiated an engineering study of two of its eight dams in 2002. The two dams being studied, the Supply and Harris Pond dams, were the last ones remaining to be studied to insure that the dams, crucial to the operation of Pennichuck, meet all current dam safety standards. The results of the completed study indicated that certain upgrades to the dams' spillways and earthen embankments were required in order to meet current NHDES and Federal standards. The engineering plans and permitting will be completed by the fall of 2003, and the required construction will be completed in 2004. The estimated cost of the required dam repairs and upgrades is estimated to be about $1.12 million.

The proposed dam and repair upgrade time frame has been accepted by the NHDES. Pennichuck could face adverse regulatory actions in the event it is unable to remedy the dam deficiencies within this time period.

Threats to Nation's Health and Security. Water utility companies have generally been on a heightened state of alert since the threats to the nation's health and security in the fall of 2001. The EPA recently issued a set of instructions to describe what community water systems must do to comply with the Public Health Security and Bioterrorism Preparedness and Response Act of 2002. The Act requires all community drinking water systems that serve more than 3,300 people to certify and submit assessments to the EPA no later than June 2004. We have taken steps to increase security at our water utility facilities, heightened employee awareness of threats to our water supplies, and added security measures regarding the delivery and handling of certain chemicals used in our business. We are not aware of any specific threats to our water utility businesses or other operations.

Impact of Weather and Seasonal Demands. The demand for our water and our revenues is impacted by weather and is seasonal in nature. Normally, our most profitable quarters are the second and third calendar year quarters due to increased water consumption during the late spring and summer months. Demand is normally lower during cool, wet springs and summers than it is during warm, hot springs and summers.

Dependence on Certain Industrial Customers. Approximately $3.46 million of our operating revenues are derived from commercial and industrial customers. Pennichuck's largest water customer, Anheuser Busch ("AB"), is responsible for about 15.6% of its daily average demand. In the short term, our profitability would be adversely impacted were AB to significantly reduce its water requirements in the future or if our other commercial and industrial customers materially reduce their use of our water.

Pennichuck and AB have entered into a ten-year contract that provides the terms and conditions under which AB receives service from Pennichuck. The contract provides for a supply of up to 2 million gallons per day for the AB plant in Merrimack, New Hampshire. AB pays a cost-of-service based rate that is approximately 52% of the retail volumetric rate. The contract contains a "minimum payment obligation" clause that requires AB to pay, each year, at least 90% of the volumetric charges of the prior year. The contract provides that, should AB opt for early termination, there is a minimum annual charge to AB of 90%, 66.67% and 33.3% in the first, second and third year following the year of notification of early termination, respectively, based on the annual charge in the year of notification. In such case, we would seek the approval of the NHPUC to increase the rates of our remaining customers to recover any lost revenues from the loss of such a major industrial customer. Any increase in our rates and improvement in our profitability from a loss of a major customer could take at least 12 months to realize, an example of regulatory lag. In addition, there can be no assurance that the NHPUC would approve such a rate increase request.

Risks Related to Real Estate Business

Development Risks. Southwood, our real estate subsidiary, is the owner of several tracts of land located in southern New Hampshire, which are planned for development. The demand and prices for Southwood's real estate are dependent upon interest rates and construction costs as well as general economic conditions.

Carrying Costs. Real estate assets are subject to ongoing maintenance costs and property taxes. Reductions in demand for our properties may cause us to continue to incur operating costs without any offsetting income.

Building Vacancies. Southwood has a 50% ownership interest in three separate joint ventures owning commercial office buildings located in Merrimack, New Hampshire. Southwood's share of the net operating income from leases associated with those buildings could be adversely impacted by a downturn in the local economy and commercial real estate market.

Item 2. PROPERTIES

Office Buildings

The Company owns and occupies a three-story, 11,616 square foot building located in downtown Nashua, New Hampshire. It also owns a separate building in Nashua which serves as an operations center and storage facility for its construction and maintenance activities. Except as noted in "Note 3- Debt" in the accompanying Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K Report, there are no mortgages or encumbrances on our properties.

Water Supply Facilities

Pennichuck's principal properties are located in Nashua, New Hampshire, with the exception of several source-of-supply land tracts which are located in the neighboring towns of Amherst, Merrimack and Hollis, New Hampshire. In addition, Pennichuck owns four impounding dams which are situated on the Nashua and Merrimack border.

The location and general character of Pennichuck's principal plant and other materially important physical properties are as follows:

1. Holt Pond, Bowers Pond, Harris Pond and Supply Pond and related impounding dams comprise the chief source of water supply in Nashua, New Hampshire.

2. An Infilco Degremont treatment plant using physical chemical removal of suspended solids and sand and carbon filtration with a rated capacity of 35 million gallons per day, located in Nashua, New Hampshire.

3. A water intake plant and pumping facility located on the Merrimack River in Merrimack, New Hampshire. Pennichuck has a permit from the Army Corps of Engineers to withdrawal up to 30 million gallons per day of water from the Merrimack River at this intake.

The existing pumps are capable of providing up to 16.2 million gallons per day supplemental water supply source provides an additional source of water during dry summer periods and will provide a long-term supply for Pennichuck's service area.

4. Approximately 672 acres of land located in Nashua and Merrimack which are owned and held for watershed and reservoir purposes.

5. Eleven water storage reservoirs having a total storage capacity of 20.7 million gallons, six of which are located in Nashua, two in Amherst, one in Bedford, one in Derry and one in Hollis, New Hampshire.

The source of supply for Pennichuck East is a well system owned by the Town of Hudson in Litchfield, New Hampshire, purchased water from the Manchester Water Works or individual bedrock wells. Pennichuck East has entered into a long-term water supply agreements to obtain water from Hudson and Manchester Water Works.

The Pittsfield Aqueduct Company owns the land surrounding Berry Pond and it treats the water from this Pond through a .5 mgd water filtration plant located in Pittsfield, New Hampshire. Berry Pond serves as the sole source of supply for Pittsfield.

Water Distribution Facilities

The distribution facilities of the Company's regulated water companies consist of, among other assets, the following:

	Pennichuck	Pennichuck East	Pittsfield
Transmission & distribution mains (in miles)	406	114	13
Services	23,348	4,475	640
Meters	24,212	4,136	667
Hydrants	2,264	383	70

Land Held for Future Development

Following Pennichuck Water Works' reorganization in 1984 into a holding company structure, the Company transferred 402 acres of previously designated watershed protection land to Pennichuck, and approximately 1,088 acres of buffer and alternate use land were transferred to Southwood. Since 1984, Southwood has sold or transferred approximately 836 acres of land to third parties or to participating joint ventures.

Based on vegetation, topographical, wetland and hydrological studies, the Company and Southwood have designated their remaining 592 acres into buffer (non-developable) and alternate use (developable) designations, resulting in an approximate breakout of 283 and 309 acres, respectively. Of the approximately 309 acres of alternate use land, 36 acres are located primarily in the northwestern section of city of Nashua, New Hampshire, and 273 acres are located in the western and southerly portions of the town of Merrimack, New Hampshire.

The following table summarizes the currently approved zoning for alternate use land at December 31, 2002:

	Nashua, NH	Merrimack, NH	Total
Residential	36	168	204
Industrial	–	105	105
Total Alternate Use Acreage	36	273	309

In January 2003, Southwood sold a 66.8 acre tract of undeveloped land located in Merrimack, New Hampshire to a third party. The remainder of the Company's and Southwood's landholdings in Nashua and Merrimack are classified under "Current Use" status, resulting in an assessment that is based on the property's actual use and not its highest or best use.

Item 3. LEGAL PROCEEDINGS

Pending Regulatory Investigation

The Company has been informed by the Securities and Exchange Commission and the New Hampshire Bureau of Securities Regulation that it is the subject of related investigations by each agency. The Company understands that those investigations relate to various real estate development joint ventures, and include a real estate transaction between one of those joint ventures and Maurice L. Arel, the Company's President, and the Company's previous public disclosure regarding that transaction. The Company's board of directors has retained legal counsel to conduct an independent review of such matters, under the direction of the Company's Audit Committee, and has instructed the Company and counsel to cooperate fully with both investigations. The independent review is ongoing with the cooperation of all executive officers.

Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB for that year, disclosed that an executive officer had purchased a home in 1998 from a joint venture between a Pennichuck subsidiary and an unaffiliated real estate developer. Note A stated that the terms of the home purchase "were the same as the terms which would be given to any independent third-party purchaser." Mr. Arel is the executive referenced in that disclosure. The Audit Committee has obtained information indicating that Mr. Arel's 1998 home purchase in fact was not on terms that would have been available then to any independent third-party purchaser. The Audit Committee is continuing to investigate the matter to determine, among other things, the financial impact of the transaction on the Company, the value of any benefits received by Mr. Arel in that transaction, the circumstances surrounding the preparation of the disclosure in Note A to the 1998 financial statements, and what, if any, action the Company should take against Mr. Arel or others.

Although the Company is cooperating fully with the regulatory investigations, the SEC and the New Hampshire Bureau of Securities Regulation, upon the completion of their respective investigations, could seek to impose fines, penalties or other sanctions upon the Company.

Eminent Domain Proceeding

The Company has been involved in ongoing proceedings with the City of Nashua regarding the City's desire to acquire all or a portion of the Company's water utility assets. By letters dated March 25, 2003, each of the Company's water utility subsidiaries informed the City of Nashua that it would not voluntarily sell its plant and property to the City and that it believed such a sale would not be in the interest of the Company's customers, its employees or its shareholders. By letter dated March 26, 2003, the City indicated its intent to pursue acquisition of all or a portion of the Company's water utility assets before the NHPUC pursuant to its power of eminent domain.

Other Proceedings

The Company and its subsidiaries are not otherwise involved in any material litigation or other proceedings which, in management's opinion, would have an adverse effect on the business, the consolidated financial condition or the operating results of the Company and its subsidiaries.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the fiscal year covered by this Report, no matters were submitted to a vote of security holders.

PART II:

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is quoted on the NASDAQ National Market System ("NMS") under the symbol "PNNW." On December 31, 2002, there were approximately 700 holders of record of the 2,391,439 shares of the Company's Common Stock outstanding.

The following table sets forth the comparative market prices per share of the Company's Common Stock based on the high and low closing sales prices as reported on the NASDAQ NMS during the applicable periods and the dividends declared by the Company during those periods. All stock information has been adjusted to reflect the four-for-three stock split effected December 3, 2001.

Period	High	Low	Dividends Declared
2002:			
Fourth Quarter	$29.58	$27.10	$.195
Third Quarter	28.34	23.65	.228 (1)
Second Quarter	31.54	24.55	.195
First Quarter	26.44	24.21	.195
2001:			
Fourth Quarter	$26.81	$19.19	$.19
Third Quarter	24.17	20.85	.19
Second Quarter	25.61	19.02	.19
First Quarter	21.76	18.51	.19
2000:			
Fourth Quarter	$21.38	$17.81	$.19
Third Quarter	21.00	18.00	.18
Second Quarter	22.69	16.50	.18
First Quarter	24.75	15.66	.18

(1) Includes a special one-time dividend of $.033 per share.

Certain bond and note agreements involving the Company's subsidiary, Pennichuck Water Works, Inc. ("Pennichuck"), require, among other things, restrictions on the payment or declaration of dividends by Pennichuck to the Company. Under Pennichuck's most restrictive covenant, approximately $4.15 million of its retained earnings was unrestricted for payment or declaration of common dividends to the Company at December 31, 2002.

Item 6. SELECTED FINANCIAL DATA

	2002	2001	2000	1999	1998
Operating revenues (in $000's)	$23,422	$22,754	$23,671	$17,809	$17,395
Net income (in $000's)	$2,341	$ 3,612	$3,683	$ 2,616	$ 2,106
Earnings per share (basic)	$.98	$ 1.52	$1.56	$ 1.12	$ 1.21
Cash dividends declared per share of common stock	$.813	$ 0.76	$0.73	$ 0.69	$ 0.59
Total assets (in $000's)	$90,982	$87,630	$82,880	$75,581	$70,838
Long-term debt (in $000's)	$27,214	$27,420	$27,237	$28,266	$28,185

Prior year per share amounts have been restated to reflect the three-for-two stock split in September 1998 and the four-for-three stock split in December 2001.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Pennichuck Corporation (the "Company") has five wholly-owned subsidiaries. Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. ("Pittsfield") are involved in water supply and distribution in cities and towns throughout southern and central New Hampshire. These water subsidiaries are regulated by the New Hampshire Public Utilities Commission ("NHPUC") and, as such, they must obtain approval to increase their water rates to recover increases in operating expenses and to obtain the opportunity to earn a return on rate base investments. Pennichuck Water Service Corporation (the "Service Corporation") is involved in non-regulated, water-related services and contract operations, and The Southwood Corporation ("Southwood") owns, manages, develops, and sells real estate, principally through real estate joint ventures.

As you read Management's Discussion and Analysis, please refer to the Company's Consolidated Financial Statements and Notes to Consolidated Financial Statements and Selected Financial Data contained in this Report.

Forward Looking Information

This report, including management's discussion and analysis, contains certain forward looking statements regarding the Company's results of operations and financial position. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward looking statements. These forward looking statements are based on current information and expectations available to management at the time the statements are made and are subject to factors and uncertainties that could cause the Company's actual results to differ materially from those expressed or implied by such forward looking statements. Such statements address the following subjects, among others: likely commencement of eminent domain proceedings before the NHPUC to acquire all or a portion of the Company's water utility assets and impact thereof on the Company's consolidated business operations and planning; timeliness and extent of water utility rate increases, if any; future operating results in the water utility and real estate sectors; and, corporate spending and liquidity. The following factors, among others, could cause actual results to differ materially from those described in the forward looking statements: with respect to eminent domain proceedings, the timeframe in which proceedings occur, and the results thereof; with respect to regulated water utility rate relief, the timing and amount of rate increases as well as general regulatory lag in realizing changes; with respect to water utility operations, the impact of weather, such as the amount of rainfall and temperature; with respect to real estate development, the impact of overall economic conditions in the local and national economy; with respect to corporate spending and liquidity, changes in capital requirements that may affect the Company's level of capital expenditures and any enhanced security measures that may be required to be implemented by water utility companies.

Terminated Merger With Philadelphia Suburban Corporation

On April 29, 2002, the Company entered into a definitive agreement with Philadelphia Suburban Corporation ("PSC") to merge into a wholly-owned subsidiary of PSC with shareholders of the Company receiving shares of PSC in the merger. Total expenses associated with the pending PSC merger transaction were approximately $1,946,000 for the twelve months ended December 31, 2002. Those expenses are broken down as follows:

Legal fees	$ 759,000
Investment banking fees	1,086,000
Other fees	101,000
Total merger costs	$1,946,000

As discussed in Note 9 - Commitments and Contingencies in the accompanying Notes to the Consolidated Financial Statements, the Company and PSC mutually decided to terminate the merger agreement on February 4, 2003 following a January 14, 2003 referendum by the City of Nashua. The referendum authorized the City of Nashua to pursue the acquisition, by an eminent domain proceeding or otherwise, of all or a portion of the Company's water works systems serving the residents of Nashua and other communities in which the Company's three regulated utilities operate.

Under current Internal Revenue Code regulations, certain merger-related costs would not have been deductible for Federal income tax purposes if the merger had been ultimately consummated. Accordingly, throughout the first three quarters of 2002, the Company calculated its tax provision based on the assumption that these merger-related expenses would not be deductible for tax purposes either currently or in the future. However, as a result of the subsequent termination of the merger agreement, these merger-related costs are deductible for tax purposes. The Company's 2002 tax provision reflects the tax benefit resulting from the change in treatment of these costs.

Results of Operations

In this section, we discuss our 2002, 2001 and 2000 results of operations and the factors affecting them. Our consolidated revenues tend to be significantly affected by weather conditions experienced throughout the year and by sales of major real estate parcels which may occur from time to time (see disclosure of operative Risk Factors contained elsewhere in this report). Water revenues are typically at their lowest point during the first and fourth quarters of the calendar year. However, water revenues in the second and third quarters tend to be greater because of increased water consumption for non-essential usage by our customers during the late spring and summer months.

Results of Operations – 2002 Compared to 2001

For the year ended December 31, 2002, the Company's consolidated net income was \$2.34 million, compared to net income of \$3.61 million in 2001, a decrease of 35%. On a per share basis, basic income per share was \$.98 for the twelve months ended December 31, 2002, a \$.54 per share decrease from last year. The decrease in consolidated net income was principally due to the transaction expenses incurred during 2002 relating to the proposed merger with PSC, which was subsequently terminated in February 2003. Excluding the effect of those merger expenses, consolidated net income for 2002 was \$3.53 million, or \$1.48 per share.

Consolidated revenues in 2002 were \$23.42 million, a 3% increase over last year. As discussed below, increased revenues resulted primarily in the Company's regulated water and contract operations businesses offset by decreased revenues from land sales in 2002.

Water Utility Operations

Utility operating revenues for 2002 increased to \$18.83 million, or 8%, from 2001. For 2002, approximately 82%, 16% and 2% of our total utility operating revenues were generated by Pennichuck, Pennichuck East and Pittsfield, respectively, which was not materially different than in 2001 as shown in the following table:

	2002	2001	Change
Pennichuck	\$15,344,000	\$14,102,000	\$ 1,242,000
Pennichuck East	3,097,000	2,895,000	202,000
Pittsfield	388,000	415,000	(27,000)
Total	\$18,829,000	\$17,412,000	\$ 1,417,000

The $1.24 million increase in Pennichuck's revenues from 2001 to 2002 is principally due to the positive effect of an 8.67% rate increase granted to Pennichuck in September 2001 and an additional 5.76% rate increase granted to Pennichuck in March 2002. The annualized effect of those two rate increases was estimated to be approximately $1.8 million. However, the positive effect of those rate increases in 2002 was partially offset by a 4.6% decline in billed consumption within the core system from 2001. Through the first nine months of 2002, rainfall in the region in which the utilities operate was 16.2% greater than in the same period of 2001 thus contributing to the overall decline in consumption for the year. In addition to the core system rate increases, water revenues reflect a 2.1% growth (approximately 600 customers) in the combined utilities' customer base from December 31, 2001 to December 31, 2002.

During 2002, there were no new rate filings made by the Company's three regulated water utilities and no such rate proceedings are pending with the NHPUC.

The operating expenses of our water utility business include such categories as:

- water treatment and purification,
- pumping and other distribution system functions,
- general and administrative functions,
- depreciation on existing operating assets, and
- taxes other than income taxes (principally payroll and property taxes)

Our utilities' operating expenses increased by $377,000, or 3%, to $12.8 million for the year ended December 31, 2002. The primary reasons for the increased utility operating costs from 2001 to 2002 were:

- $196,000 of additional depreciation expense reflecting new investment in plant assets during 2002 and 2001 totaling $5.12 and $6.02 million for each year, respectively, net of contributions in aid of construction;
- an increase of approximately $106,000 in local property taxes reflecting higher assessed values on utility property;
- a $128,000 increase in pension expense as a result of declining investment returns on pension plan assets and increased payroll costs;
- a $74,000 increase, or 38%, in property and liability premiums paid, consistent with recent changes in the insurance market;
- offset by approximately $36,000 in lower power and purification expenses, as a result of the decrease in consumption discussed earlier, and $65,000 in additional capitalized overhead on new plant placed in service during 2002.

The utilities' combined operating income (operating revenues less operating expenses) for the year ended December 31, 2002, increased to $6.04 million, or 21%, over 2001, resulting in an operating margin of 32% in 2002, compared to an operating margin of 29% in 2001.

Real Estate Operations

For the year ended December 31, 2002, operating income from real estate activities conducted by Southwood was $1.34 million compared to $3.24 million in 2001. The following table summarizes the major sales and other transactions that occurred in 2002 and 2001 which are discussed further in this section.

	December 31	
Revenues:	2002	2001
Land sales:		
Southwood Corporate Park	$2,427,000	$422,000
HECOP IV	168,000	
HECOP III		155,000
Westwood Park LLC	—	2,000,000
Other	—	100,000
	2,595,000	2,677,000
Equity interest in partnerships	314,000	1,313,000
Other	179,000	167,000
Total Revenues	3,088,000	4,157,000
Expenses:		
Allocated infrastructure costs associated with land sales	1,662,000	396,000
Other expenses	88,000	516,000
Total Expenses	1,750,000	912,000
Operating Income (1)	$1,338,000	$3,245,000

(1) Included in operating income for 2001 is the 40% minority interest share, or approximately $800,000, relating to the sale of land by Westwood Park LLC

For 2002, real estate revenues included the following:

- Net cash proceeds of $2.43 million from the sale of the remaining 40 acres in Southwood Corporate Park during the first quarter of 2002 to one of Southwood's existing joint venture partners;
- $314,000 from Southwood's 50% ownership interest in HECOP I, II and III;
- $168,000 cash from the sale of a one-half interest in a 9.1 acre tract of land to a local developer who also holds an ownership interest in HECOP I, II and III for the creation of HECOP IV, LLC; and
- $91,000 of interest income earned on outstanding notes receivable due from a local developer.

In connection with the HECOP I, II, III, and IV LLCs, Southwood holds a 50% ownership interest in each of those limited liability companies (LLCs). Revenues recorded by Southwood during 2002 and 2001 represent its 50% share of the net operating income resulting from the leasing activities of HECOPs I, II and III. Each of those three LLCs owns land and a commercial office building, all of which are subject to a mortgage note with a local bank. The outstanding mortgage note balances at December 31, 2002, totaled approximately $9.45 million as discussed in Note 4 - Equity Investments in Unconsolidated Companies in the accompanying Notes to the Consolidated Financial Statements. As of December 31, 2002, the principal asset of HECOP IV was approximately 9.1 acres of land held for future development.

During 2002, a major tenant occupying one of the buildings owned by an LLC filed for bankruptcy protection. However, the tenant's bank has issued a letter of credit for the benefit of the LLC guaranteeing the tenant's full lease payments over the remaining term of its lease which expires on March 31, 2005. The LLC is actively looking for a new party to occupy the portion of office space (approximately 26,000 square feet) that is no longer utilized by the tenant.

Revenues from real estate operations during 2001 consisted chiefly of the following :

- Proceeds of $2 million from the sale of land to the City of Nashua by Westwood Park LLC ("Westwood") in which Southwood has a 60% ownership interest;
- $524,000 from Southwood's share of pretax profit from its residential joint venture, Heron Cove at Bowers Pond LLC;
- $422,000 from the sale of two land parcels in Southwood Corporate Park;
- $155,000 cash from the sale of a one-half interest in a 4-acre tract of land to a local developer who also holds an ownership interest in HECOP I and II for the creation of HECOP III, LLC;
- $100,000 from the sale of a residential land parcel to a local developer; and
- $141,000 from Southwood's 50% ownership in HECOP I, II and III

Expenses associated with our real estate operations during 2002 increased by $838,000 to $1.75 million for the year ended December 31, 2002. Included in 2002 and 2001 real estate expenses was approximately $1.66 million and $396,000, respectively, of direct infrastructure costs allocable to the Southwood Corporate Park land sales in those years. Excluding allocated infrastructure costs, Southwood's 2002 operating expenses were approximately $89,000 consisting primarily of property taxes and intercompany allocation charges. For 2001, real estate operating expenses were comprised of (i) $47,000 of bad debt expense relating to accrued interest on certain notes receivable, (ii) $108,000 of property taxes and property maintenance expenses associated with Southwood's remaining landholdings, and (iii) $273,000 for allocated intercompany charges.

In January 2003, Southwood sold a 66.8 acre tract of land in Merrimack, New Hampshire to another local developer for approximately $1.5 million. Under the terms of that sale, Southwood received cash of approximately $260,000 and a $1.224 million note, maturing in October 2005. The note carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale is approximately $1.48 million.

Contract Operations and Other

For the year ended December 31, 2002, operating income from our contract operations was $200,000, an increase of $57,000, or 40%, from 2001.

The following table provides a breakdown of contract operations revenues for 2002 and 2001:

	2002	2001	Change
Service Corporation:			
Municipal contracts	$1,011,000	$666,000	$345,000
Community system			
Contracts	249,000	188,000	61,000
Watertight program	165,000	74,000	91,000
Miscellaneous	34,000	30,000	4,000
Total Service Corporation	$1,459,000	$958,000	$501,000

More than half of the $501,000 increase in the Service Company's revenue over 2001 resulted from additional contract fees of $331,000 billed by the Service Corporation under an operating contract with the Town of Salisbury, Massachusetts, which began in October 2001 and was in effect during all of 2002. Under the terms of that multi-year contract, the Service Corporation operates and maintains that municipality's water system, including all meter reading and billing functions. The contract provides for annual adjustments to contract fees based on changes in the Consumer Price Index. During 2002, other Service Corporation revenues included (i) $165,000 earned under its Watertight program, which provides maintenance service to residential customers, and (ii) contract revenues of approximately $249,000 from 52 operating contracts for non-transient, non-community water systems. At the end of 2001, the Service Corporation had 40 such operating contracts. Under these contracts, the Service Corporation performs various water-related monitoring, maintenance, testing and compliance reporting services for water systems throughout southern and central New Hampshire.

Other operating revenues not related to contract operations in 2001 totaled $228,000 which included approximately $175,000 from timber harvesting activities on forested land owned by the Company. No timber harvesting activities were undertaken during 2002.

Expenses associated with our Service Corporation activities were $1,258,000 and $814,000 for 2002 and 2001, respectively, primarily comprised of direct costs for servicing its various operating contracts and allocated intercompany charges. The increased expenses from 2001 to 2002 resulted principally from (i) additional annualized direct expenses of $224,000 relating to the Town of Salisbury contract, (ii) $36,000 in increased Watertight program related expenses, (iii) an increase of $139,000 in allocated intercompany charges due to additional Company and Pennichuck resources utilized for the operation and development of the Service Corporation's various activities and (iv) $39,000 of amortization charges reflecting the write-off of certain deferred charges related to non-transient, non-community water systems.

Results of Operations – 2001 Compared to 2000

There was a significant shift in the earnings among the Company's core businesses from 2000 to 2001. Although consolidated net income decreased 2% to $3.61 million in 2001 from $3.68 million in 2000, practically all of that decrease resulted from the fact that gains on two major land sales were realized in 2000 by Westwood. The impact of those sales alone on earnings per share was $.56 in 2000. As discussed below, the 2001 earnings from our utility operations, however, increased by $420,000, or $.18 per share, over 2000.

Water Utility Operations

On a combined basis, operating income of our three utilities in calendar year 2001 was approximately $5.0 million compared to $4.35 million in 2000.

Utility operating revenues for 2001 totaled $17.41 million – a 9% increase from 2000. For 2001, approximately 81%, 17% and 2% of our total utility operating revenues were generated by Pennichuck, Pennichuck East and Pittsfield, respectively, which was not materially different than in 2000.

The principal reasons for the increase in our 2001 utility revenues were:

- A $956,000 increase in billed consumption within Pennichuck's core system from 2000 to 2001 resulting from the extended hot and dry weather conditions during 2001 compared to 2000;
- An 8.52% temporary rate increase granted to Pennichuck effective on September 8, 2001, resulting in approximately $350,000 of additional revenues; and
- A 20.8% increase in billed consumption within Pennichuck East's system from 2000 to 2001 as a result of the weather conditions noted above.

In June 2001, Pennichuck filed for a 20.09% rate increase with the NHPUC, representing a request for $2.5 million in additional annual revenues. In connection with that rate filing, the NHPUC approved a temporary rate increase of 8.52% applied on bills rendered on or after September 8, 2001. On March 1, 2002, the NHPUC issued its final order in which it granted final approval of an overall 14.43% revenue increase. The approved rate order includes an 8.67% rate increase on bills rendered on or after September 8, 2001, and an additional step adjustment of 5.76% on service rendered on or after March 1, 2002.

Combined utility operating expenses increased by $794,000, or 6.8%, to $12.4 million for the year ended December 31, 2001. That increase is attributable to (i) $182,000 of additional depreciation incurred by our three utilities during 2001 reflecting their $6 million net investment in new plant assets during 2001 and (ii) approximately $160,000 for additional administrative costs, primarily health insurance and other employee benefit costs. As a result of the increase in utility revenues, offset partially by the increase in utility expenses, the utilities' combined operating income increased by $654,000 from 2000 to 2001. As a percentage of combined utility revenues, the utilities' operating margin increased from 27.2% in 2000 to 28.7% in 2001.

Real Estate Operations

Operating income from our real estate operations was approximately $3.24 million and $4.63 million for the year ended December 31, 2001 and 2000, respectively. Real estate earnings during 2001 and 2000 were positively impacted by major real estate sales conducted through Westwood. In 2001, Westwood sold a parcel of land to the City of Nashua for $2 million while in 2000, Westwood sold two land parcels having a combined sales price of approximately $5.49 million. Southwood's share of the after-tax gain from these sales was $.30 per share and $.56 per share for calendar years 2001 and 2000, respectively.

In addition to the revenues generated by Westwood, other real estate revenues during 2001 include:

- $524,000 as Southwood's share of pretax profit from its residential joint venture known as Heron Cove at Bowers Pond LLC;
- $422,000 from the sale of two land parcels in Southwood Corporate Park;
- $100,000 from the sale of a residential land parcel to a local developer; and
- $141,000 from Southwood's share of pretax income relating to its 50% ownership in three commercial office buildings.

The operating expenses associated with our real estate operations decreased from $2.36 million in 2000 to $912,000 in 2001. Principally all of that decrease relates to the allocated land and infrastructure development costs associated with the Westwood land sales in 2000 discussed earlier. The operating expenses in 2001 were comprised of (i) $79,000 of property taxes on Southwood's landholdings, (ii) $396,000 of direct infrastructure costs allocable to the Southwood Corporate Park land sales and (iii) $164,000 for allocated intercompany charges.

Contract Operations and Other

Revenues from contract operations and other increased $467,000, or 65%, to $1,186,000 in 2001 from the previous year. Of that increase, nearly $296,000 was generated by the Service Corporation as a result of (i) an additional 16 operating contracts signed during 2001 and (ii) a new multi-year operating contract with a Massachusetts municipality which was entered into in September 2001. The Service Corporation earned nearly $108,000 of revenues during the fourth quarter of 2001 from that contract. Revenues from other operations increased $171,000 to $228,000 in 2001. This increase was primarily attributable to the sale of timber harvested from portions of the Company's undeveloped landholdings. Other revenues also include rental income from several tower leases totaling approximately $50,000 in each of 2001 and 2000.

The operating expenses associated with our contract operations and other activities increased significantly from $485,000 in 2000 to $881,000 in 2001, principally as a result of:

- $117,000 in added contract operating costs relating to the acquisition of the new systems discussed above;
- $78,000 from an increase in allocated intercompany charges; and
- a $63,000 increase in costs relating to shareholder and other administrative matters accrued by the Company.

Liquidity and Financial Condition

Over the past two years, the primary sources of cash needed for normal operating activities, capital projects, debt service and dividend payments were (i) available cash from the Company's short-term investments and (ii) operating cash flow generated from day-to-day business activities. During previous periods when available cash and operating cash flow were not sufficient, the Company has borrowed funds under a revolving loan facility (the "Loan Agreement") with its bank. The Loan Agreement allows the Company and its subsidiaries to borrow up to $2.5 million at interest rates tied to the bank's cost of funds or LIBOR, whichever is lower. At December 31, 2002 and 2001, the interest rates under the Loan Agreement were 2.28% and 2.84%, respectively. During 2002, 2001 and 2000, there were no borrowings outstanding under this Loan Agreement.

As disclosed in Note 3 - Debt in the accompanying Notes to the Consolidated Financial Statements, the Company has certain debt instruments that contain annual sinking fund or other required principal payments. The Company believes that it will be able to refinance debt instruments at their maturity through public issuance, or private placement, of debt or equity.

At December 31, 2002 and 2001, the Company's cash and cash equivalents, primarily short-term investments, totaled approximately $2.44 million and $3.27 million, respectively, which were available to fund any operating cash flow deficiencies and capital expenditures of the Company and its subsidiaries. Throughout 2002 and 2001, excess cash was invested in short-term money market funds, and as a result, the Company realized approximately $56,000 in interest income in 2002 and $153,000 in 2001.

Our capital expenditures in 2002 totaled $5.12 million, net of approximately $3.32 million in the form of contributions in aid of construction from state grants and area developers. Practically all of our capital expenditures in 2002 were for projects relating to our water utility business. In 2002, the more significant projects included:

- $1.65 million for replacing aging distribution mains in Nashua, New Hampshire;
- $1.18 million for various distribution main upgrades in Pennichuck's and Pennichuck East's community water systems; and
- $420,000 for the replacement and installation of new radio read meters, which is part of an ongoing replacement program in Pennichuck's and Pennichuck East's service territories.

The remaining items in the Company's 2002 capital program reflect expenditures for ongoing, routine investment in additional pump stations, services, distribution mains and hydrants, vehicles and sundry system improvements. For 2003, we expect that our total expenditures for capital projects will be approximately $7.84 million, of which $1.34 million is expected to be funded by contributions in aid of construction, state grants and low-interest, state revolving loans. Our cash needs for capital expenditures are expected to be met from a combination of internally-generated funds and short-term investments and, if needed, from borrowings under the Company's available line of credit.

Over the next five years, the Company expects to spend approximately $6 million to $7 million annually for capital expenditures, primarily for utility related projects. Pennichuck expects that its capital investment program will continue to include significant expenditures for replacing aging distribution mains in Nashua and in certain smaller community water systems. In 1999, the City of Nashua (the "City") began a public works program mandated by the United States Environmental Protection Agency ("USEPA") requiring the City to separate its storm water runoff and sewer discharge systems over the next 10 years. Pennichuck will take the opportunity to replace any aged or deteriorating water mains in those sections where the City is performing its sewer separation work. In the past 4 years, Pennichuck has spent approximately $4 million replacing its aged mains, and its 2003 capital budget includes approximately $1.1 million for similar work. It is likely that Pennichuck will continue to spend $1 to $2 million annually on replacing its aging infrastructure within Nashua. Historically, these capital costs have been recovered through increased water rates as approved by the NHPUC.

There were several significant changes in our consolidated financial position from December 31, 2001 to December 31, 2002, principally in certain asset accounts of the Company and its subsidiaries. Those significant changes were:

- a net decrease of $221,250 in notes receivable, representing cash collected on amounts due from a local developer as further discussed below and previously classified under Other Assets at December 31, 2001;
- a decrease in deferred land costs of $1.6 million as a result of the write-off of the remaining basis of 40 acres in Southwood Corporate Park in connection with the land sale which occurred in the first quarter of 2002; and
- a net decrease in Deferred charges and other assets of $620,000 reflecting the Company's transition in its pension plan funding status from a $404,000 prepaid balance at December 31, 2001, to a $615,000 accrued liability at the end of 2002 as discussed below.

The aforementioned notes receivable balance at December 31, 2002, represents the remaining amounts due from a local developer for the acquisition of land from Southwood and the construction of five homes in a residential development. During 2002, two homes had been sold to third parties resulting in a repayment of $555,000 of principal on the development and construction loans. The notes carry an annual interest rate of 10.5% and mature in April 2003. The loans are secured by a first mortgage interest in the land and houses.

At December 31, 2001, the $100,000 note receivable balance, included under Current Assets, related to an amount due from a local developer from the sale of a residential land parcel in October 2001 that was repaid in August 2002.

Additional Minimum Pension Liability

The Company maintains a defined benefit pension plan covering substantially all of its employees. The accounting for this plan under FASB 87, "Employer's Accounting for Pensions," requires that the Company use key assumptions when computing the estimated annual pension expense. These assumptions are (i) the long-term return on plan assets, (ii) the discount rate applied to the projected benefit obligation and (iii) the long-term rate of future increases in compensation. These key assumptions are reviewed annually with our actuary and investment advisor and are discussed further in Note 6- Benefit Plans – Pension Plan in the accompanying Notes to the Consolidated Financial Statements. Any differences between the assumptions used by the Company and actual results will impact the amount of pension expense the Company recognizes in the future. Future changes resulting from any such differences are expected to be recoverable through rate relief filed by the utilities with the NHPUC.

At December 31, 2001, the Company had a prepaid pension asset of approximately $404,000, representing the excess of its plan assets over its pension liabilities. The decline in investment returns on pension assets and in the discount rate during 2002 resulted in the Company recording an additional minimum pension liability adjustment of approximately $1.02 million. As a result, the Company has recorded an accrued pension liability of approximately $615,000 at December 31, 2002, and a net charge of approximately $624,000 against Other Comprehensive Income. Future adjustments to Other Comprehensive Income will be affected by changes in realized returns on pension plan assets and changes in discount rates.

Critical Accounting Policies

The Company has identified the accounting policies below as those policies critical to its business operations and the understanding of the results of operations. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Changes in the estimates or other judgments included within these accounting policies could result in significant changes to the financial statements. Our critical accounting policies are as follows:

Statement of Financial Accounting Standards No. 71 ("SFAS 71"), *"Accounting for the Effects of Certain Types of Regulation"* stipulates generally accepted accounting principles for companies whose rates are established by or are subject to approval by an independent third-party regulator. In accordance with SFAS No. 71, we defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in rates charged to our water utilities' customers. In the event that future recovery of deferred costs ceases to be probable, the Company would be required to charge these assets against current earnings.

Accrued unbilled revenue - We read our residential customer meters generally on a quarterly basis and record our revenue based on our meter reading results. Unbilled revenues from the last meter-reading date to the end of the accounting period are estimated based on historical usage patterns and the effective tariff rates. The estimate of the unbilled revenue is a management estimate utilizing certain sets of assumptions and conditions. Actual results could differ from those estimates.

Dividend Reinvestment and Common Stock Purchase Plan

We offer a Dividend Reinvestment and Common Stock Purchase program that is available to our shareholders and residential utility customers. Under this program, our shareholders may reinvest all or a portion of their common dividends into shares of common stock at prevailing market prices. We also accept optional cash payments to purchase additional shares at 100% of the prevailing market prices. Since its inception in 1993, this program has provided the Company with nearly $1.6 million of additional common equity.

Environmental Matters

Our water utility subsidiaries are subject to the water quality regulations set forth by the United States Environmental Protection Agency ("USEPA") and the New Hampshire Department of Environmental Services ("NHDES"). The USEPA is required to periodically set new maximum contaminant levels for certain chemicals as required by the federal Safe Drinking Water Act . The quality of our treated water currently meets or exceeds all standards set by the USEPA and the NHDES. However, increased monitoring and reporting standards have led to additional operating costs for us. Any additional monitoring and testing costs arising from future USEPA and NHDES mandates should eventually be recovered through water rates in our utilities' next rate filings.

Pennichuck's water treatment plant in Nashua is impacted by the USEPA's Interim Enhanced Surface Water Treatment Rule ("IESWTR") which established a new turbidity standard of 0.3 NTU. Pennichuck is in the process of performing an evaluation of upgrades to its water treatment plant that will insure compliance with the promulgated IESWTR turbidity standard, the Filter Backwash Recycle Rule, The Long Term One Enhanced Surface Water Treatment Rules and the future Long Term Two Enhanced Surface Water Treatment Rule. The evaluation will determine what modifications will be required to Pennichuck's water treatment plant by the end of 2003. Construction of the required modifications to the water treatment plant is expected to begin in late 2004. The expected cost for any modifications required under these standards will not be determinable until completion of the above referenced evaluation.

Two of Pennichuck's small community water systems have wells that produce water with arsenic levels in excess of the new standard of 10 ppb. It will be necessary for Pennichuck to install arsenic treatment systems at these locations. Pennichuck's remaining community water systems have wells that produce water meeting the new arsenic standard.

Capital expenditures associated with federal and State water quality standards have historically been recognized and approved by the NHPUC for inclusion in our utilities' water rates.

Pending Regulatory Investigation

The Company has been informed by the Securities and Exchange Commission and the New Hampshire Bureau of Securities Regulation that it is the subject of related investigations by each agency. The Company understands that those investigations relate to various real estate development joint ventures, and include a real estate transaction between one of those joint ventures and Maurice L. Arel, the Company's President, and the Company's previous public disclosure regarding that transaction. The Company's board of directors has retained legal counsel to conduct an independent review of such matters, under the direction of the Company's Audit Committee, and has instructed the Company and counsel to cooperate fully with both investigations. The independent review is ongoing with the cooperation of all executive officers.

Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB for that year, disclosed that an executive officer had purchased a home in 1998 from a joint venture between a Pennichuck subsidiary and an unaffiliated real estate developer. Note A stated that the terms of the home purchase "were the same as the terms which would be given to any independent third-party purchaser." Mr. Arel is the executive referenced in that disclosure. The Audit Committee has obtained information indicating that Mr. Arel's 1998 home purchase, in fact, was not on terms that would have been available then to any independent third-party purchaser. The Audit Committee is continuing to investigate the matter to determine, among other things, the financial impact of the transaction on the Company, the value of any benefits received by Mr. Arel in that transaction, the circumstances surrounding the preparation of the disclosure in Note A to the 1998 financial statements, and what, if any, action the Company should take against Mr. Arel or others.

Although the Company is cooperating fully with the regulatory investigations, the SEC and the New Hampshire Bureau of Securities Regulation, upon the completion of their respective investigations, could seek to impose fines, penalties or other sanctions upon the Company.

New Accounting Standards

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143, *"Accounting for Asset Retirement Obligations"* ("SFAS No. 143"). This statement requires that the fair value of the liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amounts of the long-lived assets and depreciated over the life of the asset. SFAS No. 143 is effective for all fiscal years beginning after June 15, 2002. The Company does not believe that adoption of SFAS No. 143 will have a material impact on its financial position or results of operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"* ("SFAS No. 144") which replaces SFAS No. 121, *"Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."* This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Although SFAS No. 144 supercedes

SFAS No. 121, it retains the fundamental provisions of SFAS No. 121 regarding recognition and measurement of impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. Under SFAS No. 144, asset write-downs from discontinuing a business segment will be treated the same as other assets held for sale. The new standard also broadens the financial statement presentation of discontinued operations to include the disposal of an asset group (rather than a segment of a business). SFAS No. 144 became effective on January 1, 2002, and generally is to be applied prospectively. The adoption of this standard did not impact the Company's financial position or results of operation in 2002. The Company does not expect that the adoption of this Statement will have any significant impact on its financial position and results of operations in the future.

The FASB issued SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities"* ("SFAS 146") that requires entities to record a liability for costs related to exit or disposal activities when the costs are incurred. Previous accounting guidance required the liability to be recorded at the date of commitment to an exit or disposal plan. The Company is required to comply with SFAS 146 beginning January 1, 2003 and it does not expect that the implementation of this standard will have an adverse impact on its financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting *for Stock-Based Compensation- Transition and Disclosure- an amendment to FASB Statement No. 123"* (SFAS 148) which provides for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires prominent disclosures in both interim and annual financial statements about the method of accounting for stock-based employee compensation. See Note 7 - Stock Based Compensation Plans in the accompanying Notes to the Consolidated Financial Statements for further discussion and analysis of SFAS 123.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Information regarding market risk of the Company and its subsidiaries is presented in "Note 3 – Debt" and "Note 5 – Fair Value of Instruments" in the accompanying Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K report.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of PricewaterhouseCoopers LLP
Independent Public Accountants

To the Board of Directors and Shareholders of Pennichuck Corporation:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, stockholders' equity and other comprehensive income present fairly, in all material respects, the financial position of Pennichuck Corporation and its subsidiaries at December 31, 2002, 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. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements of Pennichuck Corporation as of December 31, 2001, and for each of the two years in the period ended December 31, 2001, were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements in their report dated February 15, 2002.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts

February 26, 2003

CONSOLIDATED BALANCE SHEETS
PENNICHUCK CORPORATION AND SUBSIDIARIES

	December 31 2002	December 31 2001
ASSETS		
Property, Plant and Equipment		
Land	$1,142,479	$ 1,224,557
Buildings	19,072,791	17,986,453
Equipment	86,220,909	79,435,709
Construction work in progress	515,442	260,007
	106,951,621	98,906,726
Less accumulated depreciation	(27,279,416)	(24,946,682)
	79,672,205	73,960,044
Current Assets		
Cash and cash equivalents	2,443,888	3,272,240
Restricted cash	151,281	151,142
Accounts receivable, net of reserves of $40,465 in 2002 and $83,998 in 2001	1,339,313	1,245,636
Unbilled revenue	1,513,417	1,349,277
Notes receivable	604,500	100,000
Refundable income taxes	334,034	124,935
Materials and supplies, at cost	589,613	364,487
Prepaid expenses and other current assets	490,196	479,900
	7,466,242	7,087,617
Other Assets		
Deferred land costs	791,499	2,390,576
Deferred charges and other assets	2,845,888	3,466,202
Investment in real estate partnerships	206,080	—
Notes receivable	—	725,750
	3,843,467	6,582,528
	$90,981,914	$87,630,189

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

CONSOLIDATED BALANCE SHEETS - CONTINUED
PENNICHUCK CORPORATION AND SUBSIDIARIES

	December 31	
	2002	2001
STOCKHOLDERS' EQUITY AND LIABILITIES		
Stockholders' Equity		
Common stock - $1 par value – authorized 11,500,000 shares in 2002 and 2001; 2,393,391 shares issued in 2002 and 2,389,019 shares in 2001	$2,393,391	$ 2,389,019
Additional paid in capital	15,169,904	15,098,088
Retained earnings	13,941,337	13,544,696
Accumulated other comprehensive income	(927,233)	(308,216)
	30,577,399	30,723,587
Less cost of 1,952 shares of common stock in treasury in 2002 and 1,385 shares in 2001	(143,858)	(128,488)
	30,433,541	30,595,099
Minority Interest	—	—
Preferred stock, no par value, 100,000 shares authorized, no shares issued in 2002 and 2001	—	—
Commitments and Contingencies (Note 9)		
Long-term Debt, less current portion	26,859,795	27,071,798
Current Liabilities		
Current portion of long-term debt	353,769	348,207
Accounts payable	673,114	1,373,120
Accrued interest payable	370,117	367,757
Other current liabilities	1,533,547	1,467,184
	2,930,547	3,556,268
Deferred Credits and Other Reserves		
Deferred income taxes	6,633,604	6,166,117
Deferred investment tax credits	999,174	1,032,210
Regulatory liability	1,138,090	1,169,658
Post-retirement health benefit obligation	570,419	480,371
Accrued pension liability	614,669	—
Other liabilities	540,720	308,216
	10,496,676	9,156,572
Contributions in Aid of Construction	20,261,355	17,250,452
	$90,981,914	$87,630,189

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

CONSOLIDATED STATEMENTS OF INCOME
PENNICHUCK CORPORATION AND SUBSIDIARIES

	December 31		
	2002	2001	2000
Revenues			
Water utility operations	$18,829,418	$17,411,760	$15,963,540
Real estate operations	3,088,007	4,156,556	6,989,006
Contract operations and other	1,504,131	1,186,022	718,930
	23,421,556	22,754,338	23,671,476
Operating Expenses			
Water utility operations	12,785,306	12,408,777	11,614,329
Real estate operations	1,750,402	912,094	2,356,602
Contract operations and other	1,238,576	881,325	484,625
	15,774,284	14,202,196	14,455,556
Operating Income	7,647,272	8,552,142	9,215,920
Merger and related expenses	(1,946,192)	—	—
Other income	65,244	221,152	183,086
Interest expense	(1,977,646)	(1,980,926)	(1,991,488)
Income Before Provision for Income Taxes	3,788,678	6,792,368	7,407,518
Provision for Income Taxes	1,450,301	2,657,420	2,869,993
Net Income Before Minority Interest	2,338,377	4,134,948	4,537,525
Minority Interest in Loss (Earnings) of Westwood Park LLC, net of tax	2,202	(523,244)	(854,864)
NET INCOME	$2,340,579	$ 3,611,704	$3,682,661
Earnings Per Common Share:			
Basic	$.98	$ 1.52	$ 1.56
Diluted	$.97	$ 1.50	$ 1.55
Weighted Average Shares Outstanding:			
Basic	2,390,942	2,382,389	2,360,767
Diluted	2,411,781	2,400,088	2,369,272

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
PENNICHUCK CORPORATION AND SUBSIDIARIES

	Common Stock-Shares	Common Stock-Amount	Additional Paid - in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income
Balances at December 31, 1999	2,347,292	$2,347,292	$14,457,786	$9,771,927	$(322,585)	$ —
Net income				3,682,661		
Dividend reinvestment plan	5,407	5,407	134,490		142,432	
Common dividends declared - $.73 per share				(1,701,189)		
Exercise of stock options	6,148	6,148	50,786		(44,953)	
Directors' fees and other deferred compensation plan			24,220		41,211	
Balances at December 31, 2000	2,358,847	2,358,847	14,667,282	11,753,399	(183,895)	—
Net income				3,611,704		
Dividend reinvestment plan			110,450		141,636	
Common dividends declared - $.76 per share				(1,812,864)		
Exercise of stock options	8,468	8,468	103,221	(2,117)	(86,229)	
Other comprehensive income for 2001						(308,216)
Directors' fee and other deferred compensation plan	21,704	21,704	217,135	(5,426)		
Balances at December 31, 2001	2,389,019	2,389,019	15,098,088	13,544,696	(128,488)	(308,216)
Net income				2,340,579		
Dividend reinvestment plan	1,789	1,789	45,136			
Common dividends declared - $.813 per share				(1,943,938)		
Exercise of stock options	2,583	2,583	26,680		(15,370)	
Other comprehensive income for 2002						(619,017)
Balances at December 31, 2002	2,393,391	$2,393,391	$15,169,904	$13,941,337	$(143,858)	$(927,233)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
PENNICHUCK CORPORATION AND SUBSIDIARIES

		December 31	
	2000	2002	2001
Net income	$2,340,579	$3,611,704	$3,682,661
Other comprehensive income:			
Additional minimum pension liability adjustment	(1,019,527)	—	—
Unrealized (loss) on derivatives	(476,114)	(396,478)	—
Reclassification of net losses realized in net income	243,610	88,262	—
Income tax benefit relating to other comprehensive loss	633,014	—	—
	(619,017)	(308,216)	—
Comprehensive Income	$1,721,562	$3,303,488	$3,682,661

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
PENNICHUCK CORPORATION AND SUBSIDIARIES

	December 31 2002	2001	2000
Operating Activities:			
Net income	$2,340,579	$3,611,704	$3,682,661
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,775,889	3,046,962	3,171,766
Gain on sale of land	(764,664)		
Amortization of deferred investment tax credits	(33,036)	(33,036)	(33,036)
Provision for deferred income taxes	862,701	930,639	944,895
Changes in assets and liabilities:			
Accounts receivable and unbilled revenue	(257,817)	(1,307)	(84,579)
Refundable income taxes	(209,099)	245,199	(98,822)
Materials and supplies	(225,126)	(10,485)	(42,290)
Prepaid expenses	(10,296)	(79,004)	322,670
Deferred charges and other assets	(139,413)	(1,363,818)	(104,092)
Accounts payable and accrued expenses	(631,283)	896,621	(79,755)
Other	291,478	28,675	6,079
Net cash provided by operating activities	3,999,913	7,272,150	7,685,497
Investing Activities:			
Purchases of property, plant & equipment	(5,274,332)	(6,133,919)	(4,423,789)
Contributions in aid of construction	156,856	116,428	874,720
(Increase) decrease in restricted cash	(139)	851,713	(1,001,958)
Proceeds from sale of land	2,426,815	—	—
(Increase) decrease in investment in real estate partnerships and deferred land costs	(269,154)	764,103	(322,081)
Net cash used in investing activities	(2,959,954)	(4,401,675)	(4,873,108)
Financing Activities:			
Payments on long-term debt	(351,441)	(319,155)	(1,041,816)
Proceeds from long-term borrowings	145,000	502,145	12,860
Net decrease (increase) in notes receivable	221,250	(825,750)	—
Minority interest	—	(1,149,673)	854,864
Proceeds from dividend reinvestment plan and other, net	60,818	275,428	356,852
Dividends paid	(1,943,938)	(1,812,864)	(1,701,189)
Net cash used in financing activities	(1,868,311)	(3,329,869)	(1,518,429)
Increase (decrease) in cash	(828,352)	(459,394)	1,293,960
Cash at beginning of year	3,272,240	3,731,634	2,437,674
Cash at end of year	$2,443,888	$3,272,240	$3,731,634

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

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of Pennichuck Corporation and subsidiaries are as follows:

Basis of Presentation: The consolidated financial statements are presented in accordance with generally accepted accounting principles and include the accounts of Pennichuck Corporation, an investor-owned holding company (the "Company") and its wholly-owned subsidiaries, Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East"), Pittsfield Aqueduct Company, Inc. ("Pittsfield"), Pennichuck Water Service Corporation (the "Service Corporation") and The Southwood Corporation ("Southwood"). All significant intercompany transactions have been eliminated in consolidation.

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 pretax earnings or losses which are included under "Revenues-real estate operations," 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 venture. See Note 4 for further discussion of its equity investments.

Nature of Operations: Pennichuck, Pennichuck East and Pittsfield (collectively referred to as the "Company's utility subsidiaries") are engaged principally in the gathering and distribution of potable water to approximately 28,800 customers in southern and central New Hampshire. The Company's utility subsidiaries, which are regulated by the New Hampshire Public Utilities Commission (the "NHPUC"), are subject to the provisions of Statement of Financial Accounting Standard ("SFAS") 71, *"Accounting for the Effects of Certain Types of Regulations."* The Service Corporation is involved in providing non-regulated, water-related services to over 7,900 customers while Southwood owns, manages and develops real estate.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions. These may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents include cash in banks, demand deposits and investments in short-term money market funds with initial maturities of three months or less when purchased.

Restricted Cash: Restricted cash consists primarily of funds escrowed by one of Southwood's joint ventures for the payment of certain traffic improvements relating to an industrial park.

Inventory: Inventory is stated at cost using the average cost method.

Property, Plant and Equipment: Property, plant and equipment, which principally includes the water utility assets of the Company's utility subsidiaries, is recorded at cost plus an allowance for funds used during construction on major, long-term projects. The provision for depreciation is computed using the straight-line method over the estimated useful lives of the assets including property funded with contributions in aid of construction. The useful lives range from 5 to 84 years and the average composite depreciation rate was 2.69% in 2002, 2.67% in 2001 and 2.71% in 2000. Depreciation expense in 2002, 2001 and 2000 was $2,730,486, $2,489,910 and $2,307,533, respectively. The components of Property, Plant and Equipment at December 31, 2002 and 2001 are as follows:

	2002	2001	Useful Lives
Utility Property:			
Land	$1,082,861	$1,164,939	—
Source of supply	18,659,486	18,390,544	34 - 75
Pumping and purification	9,060,123	8,047,584	15 - 35
Transmission and distribution	53,749,501	48,623,225	40 - 84
General, including services, meters, hydrants and other equipment	22,609,793	21,163,862	7 - 75
Construction work in progress	515,442	260,007	
Total Utility Property	105,677,206	97,650,161	
Non-utility Property	1,274,415	1,256,565	5 - 40
Total Property, Plant and Equipment	$106,951,621	$98,906,726	

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

Treasury Stock: Treasury stock held by the Company represents shares tendered by employees as payment for exercising outstanding stock options. Treasury stock received is recorded at its fair market value when tendered. Any such treasury stock held by the Company is not retired but instead is held until its ultimate disposition has been decided.

Allowance for Funds Used During Construction ("AFUDC"): AFUDC represents a non-cash credit to income with a corresponding charge to plant in service. AFUDC amounts reflect the cost of borrowed funds and, if applicable, equity capital when used to fund major plant construction projects. There were no AFUDC amounts credited to income during 2002, 2001 and 2000.

Revenues: Standard charges for water utility services to customers are recorded as revenue, based upon meter readings and contract service, as services are provided. Estimates of unbilled service revenues are recorded in the period the services are provided. Provision is made in the financial statements for estimated uncollectable accounts.

Deferred Charges and Other Assets: Deferred charges include certain regulatory assets and costs of obtaining debt financing. Regulatory assets are amortized over periods being recovered through authorized rates. Deferred financing costs are amortized over the term of the related bonds and notes. The 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, these regulatory assets are being amortized over periods ranging from 3 to 25 years. Deferred charges and other assets consist of the following at December 31:

	2002	2001
Regulatory assets:		
Source development charges	$626,725	$674,815
Miscellaneous studies	701,453	756,413
Supplemental retirement plan asset	225,359	194,958
Other	43,618	27,989
	1,597,155	1,654,175
Financing costs	542,327	577,524
Prepaid pension	—	404,437
Franchise fees and other	405,622	511,486
Filtration grant receivable	300,784	318,580
Total	$2,845,888	$3,466,202

Deferred Land Costs: Included in deferred land costs is Southwood's original basis in its landholdings which is stated at the lower of cost or market.

Investment in Partnerships: During 2001, Southwood was a 50% general partner in a residential development project and had sold a certain parcel of land to the partnership in exchange for a $1 million, non-interest bearing promissory note. Recognition of the gain relating to the sale of that parcel was deferred until the lots were ultimately sold to third parties. Real estate transactions are presented using the cost recovery method. Under this method, any deferred gain and related note receivable are offset for financial statement purposes. Southwood's investment in this partnership is recorded using the equity method of accounting. As of December 31, 2001, all of the lots had been sold and the remaining balance on the original note receivable from that partnership was paid in full.

Notes Receivable: Included in Current Assets are two notes receivable from a local developer totaling $604,500 representing funds loaned by Southwood to the developer for land acquisition and construction of 3 residential homes. The notes, which are due in April 2003, provide for an annual interest rate of 10.5% and are secured by a first mortgage interest in the land and buildings.

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 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 credits previously realized for income tax purposes are amortized for financial statement purposes over the life of the property, giving rise to the credit.

Contributions in Aid of Construction ("CIAC"): Under construction contracts with real estate developers and others, the Company's regulated subsidiaries receive non-refundable advances for the costs of new main installation. The regulated subsidiaries also credit 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 and related plant asset are amortized over the life of the property.

Reclassifications: Certain amounts in 2001 have been reclassified to conform with the 2002 financial statement presentation. These reclassifications had no effect on net income and were primarily related to post-retirement plan assets that were previously included in "Deferred charges and other assets" which have been reclassified in the current financial statement presentation as a reduction of the Company's "Post-retirement health obligation."

Earnings Per Share: The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share for the twelve months ended December 31, 2002, 2001, and 2000:

	2002	2001	2000
Basic earnings per share	$.98	$1.52	$1.56
Dilutive effect of unexercised stock options	(.01)	(.02)	(.01)
Diluted earnings per share	$.97	$1.50	$1.55
Numerator:			
Basic net income	$2,340,579	$3,611,704	$3,682,661
Diluted net income	$2,340,579	$3,611,704	$3,682,661
Denominator:			
Basic weighted average shares outstanding	2,390,942	2,382,389	2,360,767
Dilutive effect of unexercised stock options	20,839	17,699	8,505
Diluted weighted average shares outstanding	2,411,781	2,400,088	2,369,272

New Accounting Standards

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 143, "*Accounting for Asset Retirement Obligations*" ("SFAS No. 143"). This statement requires that the fair value of the liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amounts of the long-lived assets. SFAS No. 143 is effective for all fiscal years beginning after June 15, 2002. The Company does not believe that adoption of SFAS No. 143 will have a material impact on its financial position or results of operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"* ("SFAS No. 144") which replaces SFAS No. 121, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.*" This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Although SFAS No. 144 supercedes SFAS No. 121, it retains the fundamental provisions of SFAS No. 121 regarding recognition and measurement of impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. Under SFAS No. 144, asset write-downs from discontinuing a business segment will be treated the same as other assets held for sale. The new standard also broadens the financial statement presentation of discontinued operations to include the disposal of an asset group (rather than a segment of a business). SFAS No. 144 became effective on January 1, 2002 and generally is to be applied prospectively. The adoption of this standard did not impact the Company's financial position or results of operations in 2002. The Company does not expect that the adoption of this Statement will have any significant impact on its financial position and results of operations in the future.

The FASB issued SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities"* ("SFAS No. 146") that requires entities to record a liability for costs related to exit or disposal activities when the costs are incurred. Previous accounting guidance required the liability to be recorded at the date of commitment to an exit or disposal plan. The Company is required to comply with SFAS No. 146 beginning January 1, 2003 and it does not expect that the implementation of this standard will have an adverse impact on its financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, *"Accounting for Stock-Based Compensation- Transition and Disclosure- an amendment to FASB Statement No. 123"* (SFAS No. 148) which provides for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 requires prominent disclosures in both interim and annual financial statements about the method of accounting for stock-based employee compensation. At this time, the Company does not intend to change to the fair value based method of accounting for stock-based compensation. See Note 7 for further discussion and analysis of SFAS No. 123. On a pro forma basis, the

Company's net income and earnings per share would have been reduced to the following amounts had compensation cost for the plan been determined consistent with SFAS No. 123, *"Accounting for Stock Based Compensation."*

	2002	2001	2000
Net income:			
As reported	$2,340,579	$3,611,704	$3,682,661
Deduct total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(145,291)	(143,372)	(221,535)
Pro forma	$2,195,288	$3,468,332	$3,461,126
Basic earnings per share:			
As reported	$.98	$1.52	$1.56
Pro forma	$.92	$1.46	$1.47
Diluted earnings per share:			
As reported	$.97	$1.50	$1.55
Pro forma	$.91	$1.45	$1.46

In November 2002, FASB issued Interpretation No. 45, *"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others"* (the "Interpretation"). The Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. For Pennichuck Corporation, disclosure requirements are effective with the 2002 financial statements contained in this report. The application of this Interpretation is not expected to materially impact the financial condition, results of operations, and cash flows of Pennichuck Corporation.

NOTE 2 - INCOME TAXES

The components of the federal and state income tax provision at December 31 are as follows:

	2002	2001	2000
Federal	$1,180,417	$2,113,104	$2,309,552
State	302,920	577,352	593,477
Amortization of investment tax credits	(33,036)	(33,036)	(33,036)
	$1,450,301	$2,657,420	$2,869,993

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 2 – INCOME TAXES (Continued)

	2002	2001	2000
Currently payable	$435,917	$1,836,144	$2,220,703
Deferred	1,014,384	821,276	649,290
	$1,450,301	$2,657,420	$2,869,993

The following is a reconciliation between the statutory federal income tax rate and the effective income tax rate for 2002, 2001 and 2000:

	2002	2001	2000
Statutory federal rate	34.0%	34.0%	34.0%
State tax rate, net of federal benefit	5.6	5.6	5.3
Amortization of investment tax credits	(.9)	(.5)	(.6)
Effective tax rate	38.7%	39.1%	38.7%

The Company did not have any alternative minimum tax credits available at December 31, 2002, 2001, and 2000.

The Company has a regulatory liability related to income taxes of $1,138,090 and $1,169,658 at December 31, 2002 and 2001, 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. The liability is being amortized over an average remaining life of 30 years consistent with the Company's rate-making treatment.

The temporary items that give rise to the net deferred tax liability at December 31, 2002 and 2001 are as follows:

	2002	2001
Liabilities:		
Property related	$9,264,047	$7,653,446
Other	705,968	720,438
	9,970,015	8,373,884
Assets:		
Investment tax credits	631,393	662,961
Regulatory liability	506,697	506,697
Taxes on contributions in aid of construction	580,401	682,962
Merger-related and other	1,917,920	355,147
	3,636,411	2,207,767
Valuation allowance	(300,000)	—
Net Deferred Tax Liabilities	$6,633,604	$6,166,117

The Company has recorded a valuation allowance of approximately $300,000 relating to contribution deductions expected to be taken within the next four years, the statutory carryforward period for federal tax purposes. However, there is no assurance that future taxable income will be sufficient to realize such tax benefits given current Internal Revenue Code limitations. Furthermore, in the event that the Internal Revenue Service examines any of the years affected by this carry forward, the Company's ability to utilize such deductions could be altered as well. When the Company is able to determine that it is probable these benefits will be realized in full or in part, the related valuation allowance will be reduced accordingly.

NOTE 3 - DEBT

Long-term debt at December 31 consists of the following:

	2002	2001
Unsecured notes payable to various insurance companies:		
9.10%, due April 1, 2005	$3,500,000	$ 3,500,000
7.40%, due March 1, 2021	8,000,000	8,000,000
Unsecured Industrial Development Authority Revenue Bond 1988 Series, 7.50%, due July 1, 2018	1,040,000	1,105,000
Unsecured Business Finance Authority 1994 Revenue Bond (Series A), 6.35%, due December 1, 2019	2,615,000	2,750,000
Unsecured Business Finance Authority 1994 Revenue Bond (Series B), 6.45%, due December 1, 2016	1,435,000	1,550,000
Unsecured Business Finance Authority 1997 Revenue Bond, 6.30%, due May 1, 2022	4,000,000	4,000,000
Secured notes payable to bank, floating rate, due April 8, 2005	6,000,000	6,000,000
Unsecured New Hampshire State Revolving Fund		
Loan, 3.8%, due May 1, 2022	428,312	445,000
Loan, 2.315%, due April 1, 2013	145,000	---
Secured loan, 5%, due October 1, 2005	50,252	70,005
	27,213,564	27,420,005
Less current portion	353,769	348,207
	$26,859,795	$27,071,798

The 1994 Series A and B Bonds are not subject to optional redemption until 2004 at which time they may be redeemed in whole or in part at a premium not to exceed 2% and may be redeemed at par on or after December 1, 2008. The notes and bonds payable require periodic interest payments (either monthly or semi-annually) which are based on the outstanding principal balances. The aggregate principal payment requirements subsequent to December 31, 2002 are as follows:

2003	$353,769
2004	368,357
2005	9,866,264
2006	351,144
2007	351,469
2008 and thereafter	$15,922,561

The note and bond agreements require, among other things, the maintenance of certain financial ratios and restrict the payment or declaration of dividends by Pennichuck. Under Pennichuck's most restrictive covenant, cumulative common dividend payments or declarations by Pennichuck subsequent to December 31, 1989, are limited to cumulative net income earned after that date plus $1,000,000. At December 31, 2002, approximately $4.15 million of Pennichuck's retained earnings was unrestricted for payment or declaration of common dividends. Substantially, all of the assets owned by Pennichuck East, totaling approximately $13.8 million and $12.1 million at December 31, 2002 and 2001, respectively, are pledged as collateral under a certain $4.5 million note with a local bank dated April 8, 1998.

The Company has available a $2.5 million unsecured, revolving credit facility with a bank. During 2002 and 2001, there were no outstanding borrowings under this facility.

The Company has two interest rate financial instruments which qualify as derivatives under Statement of Accounting Standards No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* ("SFAS 133"). These financial derivatives have been designated as cash flow hedges under the provisions of SFAS No. 133. The financial instruments are used to mitigate interest rate risks associated with the Company's $6 million floating-rate loans. The floating rates, which are based on LIBOR plus 65 basis points, were 2.28% and 2.84%, at the end of 2002 and 2001, respectively. The agreements provide for the exchange of fixed rate interest payment obligations for floating rate interest payment obligations on notional amounts of principal. The two derivative agreements have a fixed rate of 6.50%. The notional amount of the debt for which interest rate exchanges have been entered into under these agreements is $6,000,000 at December 31, 2002 and 2001. Changes in the fair values of those derivatives are deferred in accumulated other comprehensive income.

NOTE 4 - EQUITY INVESTMENTS IN UNCONSOLIDATED COMPANIES

At December 31, 2002 and 2001, the Company's wholly-owned real estate subsidiary, The Southwood Corporation, had a 50 percent ownership interest in four limited liability companies (LLCs). The LLCs, whose assets and liabilities are not included in the accompanying Consolidated Balance Sheets, own certain commercial office buildings on which there are outstanding mortgage notes totaling $9.45 million at the end of 2002 and $9.64 million at the end of 2001. Southwood is contingently liable on one half of the outstanding mortgage balances and as such, it has issued a guarantee to the mortgagee for its share of the guaranteed indebtedness.

Southwood uses the equity method of accounting for its investments in these three LLCs and accordingly, its investment is adjusted for its share of earnings or losses and for any distributions or dividends received from the LLCs. For the years ended December 31, 2002 and 2001, Southwood's share of earnings in these LLCs was approximately $314,000 and $141,000, respectively, and a loss of $48,000 for the year ended December 31, 2000. Southwood's share of earnings and losses are included under Revenues-real estate operations in the accompanying Consolidated Statement of Income. The principal assets of the LLCs are the land, buildings and leasehold improvements, the total of which at December 31, 2002 and 2001, was $9.40 million and $9.63 million, respectively.

During 2002, a major tenant occupying one of the buildings owned by an LLC filed for bankruptcy protection. However, the tenant's bank has issued a letter of credit for the benefit of the LLC guaranteeing the tenant's full lease payments over the remaining term of its lease which expires on March 31, 2005. The LLC is actively looking for a new party to occupy the portion of office space (approximately 26,000 square feet) that is no longer utilized by the tenant.

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of certain financial instruments, included in the accompanying Consolidated Balance Sheet as of December 31, 2002, is as follows:

	Carrying Value	Fair Value
Long-term debt	$27,213,564	$30,953,601
Interest rate swaps	$(540,720	$(540,720)

There are no quoted market prices for the Company's various long-term debt issues and thus, their fair values have been determined based on quoted market prices for securities similar in nature and in remaining maturities. 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 the Company's interest rate swaps represents the estimated cost to terminate these agreements as of December 31, 2002, based upon current interest rates. The carrying values of the Company's cash, restricted cash, and short-term notes receivable approximate their fair values because of the short maturity dates of those financial instruments.

NOTE 6 - BENEFIT PLANS

Pension Plan

The Company has a non-contributory, defined benefit pension plan covering substantially all full-time employees. The benefits are formula-based, giving consideration to both past and future service. The Company's funding policy is to contribute annually up to the maximum amount deductible for federal tax purposes. 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. The changes in benefit obligation and plan assets were as follows:

NOTE 6 – BENEFIT PLANS (Continued)

	December 31 2002	December 31 2001
Change in benefit obligation:		
Benefit obligation, beginning of the year	$3,650,659	$3,299,694
Service cost	216,226	205,929
Interest cost	270,799	243,155
Actuarial (gain) / loss	496,495	(17,644)
Benefits paid	(79,646)	(80,475)
Benefit obligation, end of the year	$4,554,533	$3,650,659

	2002	2001
Change in plan assets:		
Fair value of plan assets, beginning of the year	$3,234,454	$3,294,074
Actual loss on plan assets, net	(171,543)	(125,446)
Expenses	(25,246)	—
Employer contribution	198,442	174,683
Benefits paid, excluding expenses	(79,646)	(108,857)
Fair value of plan assets, end of the year	$3,156,461	$3,234,454

	2002	2001
The plan's funded status was as follows:		
Funded status (under funded)	$(1,398,072)	$(416,205)
Unrecognized net actuarial loss	1,858,574	884,927
Unrecognized transition (asset)/obligation	(55,644)	(69,451)
Unrecognized prior service cost	4,381	5,166
Net amount recognized	$409,239	$404,437

	2002	2001
Amount recognized in the Consolidated Balance Sheets consisted of:		
Prepaid retirement cost (included in Deferred charges and other assets	—	$404,437
Accrued retirement liability	$(614,669)	—
Accumulated other comprehensive income	1,019,527	—
Intangible asset	4,381	—
Net amount recognized	$409,239	$404,437

Weighted average assumption were as follows:

	2002	2001	2000
Discount rate at the end of the year	6.50%	7.50%	7.50%
Expected return of plan assets for the year (net of investment expenses)	8%	9%	9%
Rate of compensation increase at the end of the year	4%	5%	5%

Components of net periodic benefit cost were as follows:

	2002	2001	2000
Service cost	$216,226	$205,929	$189,730
Interest cost	270,799	243,155	219,624
Expected return on plan assets	(296,431)	(300,727)	(277,061)
Amortization of prior service cost	785	785	785
Amortization of transition (asset) /obligation	(13,807)	(13,807)	(13,807)
Recognized net actuarial loss	30,580	6,311	1,648
Net periodic benefit cost	$208,152	$141,646	$120,919

The projected benefit obligation, the accumulated benefit obligation, and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were $4,554,533, $3,771,130 and $3,156,461, respectively as of December 31, 2002, and $3,650,659, $3,108,648, and $3,234,454, respectively as of December 31, 2001.

Salary Deferral Plan

In addition, the Company has a salary deferral plan covering substantially all full-time employees. Under this plan, the Company matches 100% of the first 3% of the employee's salary contributed to the plan. The matching employer's contributions, recorded as operating expenses, were $115,210, $109,325 and $101,644, respectively, for 2002, 2001 and 2000.

Other Post-retirement Benefits

The Company provides post-retirement medical benefits to current and retired employees through separate post-retirement medical plans for its union and non-union employees. Future benefits, payable to current employees upon reaching normal retirement date, are calculated based on the actual percentage of wage and salary increases earned from the plan inception date to normal retirement date. The accumulated benefit obligation, unrecognized transition obligation and net periodic post-retirement benefit cost for the years ended December 31, 2002 and 2001, are as follows:

	December 31	
	2002	2001
Change in benefit obligation:		
Benefit obligation, beginning of the year	$808,273	$653,703
Service cost	32,928	29, 993
Interest cost	59,286	54,777
Assumption changes	148,635	30,185
Actuarial (gain) / loss	(25,052)	71,336
Benefits paid	(31,721)	(31,721)
Benefit obligation, end of the year	$992,349	$808,273

	December 31	
Change in plan assets:	2002	2001
Fair value of plan assets, beginning of the year	$203,802	$145,052
Actual loss on plan assets, net	(19,667)	(10,010)
Employer contribution	31,721	100,481
Benefits paid, excluding expenses	(31,721)	(31,721)
Fair value of plan assets, end of the year	$184,135	$203,802

The plan's funded status was as follows:		
Funded status	$(808,214)	$(604,471)
Unrecognized net actuarial loss	171,195	13,100
Unrecognized transition (asset)/obligation	-	29,900
Unrecognized prior service cost	66,600	81,100
Accrued (Liability) recorded	$(570,419)	$(480,371)

Weighted average assumption were as follows:

	2002	2001	2000
Discount rate at the end of the year	6.50%	7.50%	7.75%
Expected return of plan assets for the year (net of investment expenses)	8%	9%	9%
Rate of compensation increase at the end of the year	4%	5%	5%

Components of net periodic benefit cost were as follows:			
Service cost	$32,928	$29,993	$28,538
Interest cost	59,286	54,777	45,526
Expected return on plan assets	(14,845)	(11,413)	(4,943)
Amortization of prior service cost	14,500	14,500	14,500
Amortization of transition (asset) /obligation	29,900	30,900	30,900
Recognized net actuarial loss	—	—	(2,826)
Net periodic benefit cost	$121,769	$118,757	$111,695

The Company is presently allowed to recover a portion of the post-retirement benefits relating to active employees and retirees in its rates. To calculate the estimated accumulated benefit obligation, the Company has assumed a discount rate of 6.5% in 2002 and 7.5% in 2001, and a cost trend rate of 4% in 2002, which is the projected annual increase in future compensation levels. A one percent change in the assumed health care cost trend rate would not have had a material effect on the post-retirement benefit cost or the accumulated post-retirement benefit obligation in 2002.

NOTE 7 - STOCK BASED COMPENSATION PLANS

The Company has a stock option plan for officers and key employees which provides for incentive options. The Company accounts for the plan under APB Opinion No. 25, under which no compensation cost has been recognized in the Consolidated Statements of Income. On a pro forma basis, the Company's net income and earnings per share would have been reduced to the following amounts had compensation cost for the plan been determined consistent with SFAS No. 123, *"Accounting for Stock Based Compensation."*

	2000	2001	2000
Net income:			
As reported	$2,340,579	$3,611,704	$3,682,661
Pro forma	$2,195,288	$3,468,332	$3,461,126
Basic earnings per share:			
As reported	$.98	$1.52	$1.56
Pro forma	$.92	$1.46	$1.47
Diluted earnings per share:			
As reported	$.97	$1.50	$1.55
Pro forma	$.91	$1.45	$1.46

At December 31, 2002, all options which had been granted were exercisable, and 177,772 shares were available for future grants. Share option activity since December 31, 1999, is shown in the following table:

	Options Outstanding	Price Per Share
Balance at December 31, 1999	26,715	$7.50-$15.75
Granted	29,667	$23.25
Canceled	—	—
Exercised	(6,148)	$7.50-$15.75
Balance at December 31, 2000	50,234	$8.12-$23.25
Granted	29,704	$20.39
Canceled	(1,667)	$20.39-$23.25
Exercised	(8,468)	$8.12-$15.75
Balance at December 31, 2001	69,803	$8.12-$23.25
Granted	18,175	27.00
Canceled	—	—
Exercised	(2,583)	$8.12–$15.75
Balance at December 31, 2002	85,395	$8.12–$27.00

At December 31, 2002, outstanding options were exercisable for 85,395 shares at a weighted average exercise price of $21.88 per share. The corresponding amounts at December 31, 2001, were 69,803 and $20.16, respectively.

NOTE 7 - STOCK BASED COMPENSATION PLANS (Continued)

The following table summarizes information about outstanding options as of December 31, 2002:

Outstanding and Exercisable	Exercise Price	Contractual Remaining Life
251	$ 8.63	3
1,501	$ 8.12	4
2,501	$ 9.50	5
5,598	$15.75	6
28,499	$23.25	7
28,870	$20.39	8
18,175	$27.00	9
85,395		

The fair value of each option grant is estimated on the date of grant using the Black-Sholes option pricing model with the following assumptions used for grants in 2002, 2001 and 2000, respectively: risk-free interest rates of 4.60%, 5.08% and 6.59%; expected dividend yields of 2.9%, 4.7% and 5.3%; expected lives of 5 years in 2002, 2001 and 2000; and expected volatility of 36%, 34% and 53%.

In 2001, the Company amended its 1995 and 2000 Stock Option Plans to allow for grant of non-qualified stock options in addition to incentive stock options. The Company had granted 7,094 shares of non-qualified stock options as of December 31, 2002. The tax effects of these non-qualified stock options granted were immaterial for 2002, 2001 and 2000 for calculation of pro-forma net income under SFAS No. 148 and SFAS No. 123. None of the non-qualified stock options granted were exercised as of December 31, 2002.

NOTE 8 - SHAREHOLDER RIGHTS PLAN

On April 20, 2000, the Company's Board of Directors adopted a Rights Agreement and declared a dividend of one preferred share purchase right ("Right") for each outstanding share of common stock, $1.00 par value. Each Right entitles the shareholder to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock of the Company at an exercise price of $85.00 per share, subject to adjustment. The Rights become exercisable in the event that a person or group acquires, or commences a tender or exchange offer to acquire, more than 10% of the Company's outstanding common stock. In that event, each Right will entitle the holder, other than the acquiring party, to purchase a number of common shares of the Company having a market value equal to two times the Right's exercise price. If the Company is acquired in a merger or other business combination at any time after the Rights become exercisable, the Rights will entitle the holder to purchase a certain number of shares of common stock of the acquiring company having a market value equal to two times the Right's exercise price. The Rights are redeemable by the Company at a redemption price of $.01 per Right at any time before the Rights become exercisable. The Rights will expire on April 19, 2010, unless previously redeemed. Effective immediately prior to the execution of the merger agreement discussed in Note 9, the Rights Agreement was amended to provide that neither the merger agreement nor the transactions contemplated thereby would constitute an event that would trigger the exercisability of the Rights.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Termination of Merger Agreement

On April 29, 2002, the Company entered into a definitive agreement with Philadelphia Suburban Corporation ("PSC") to merge into a wholly-owned subsidiary of PSC with shareholders of the Company receiving shares of PSC in the merger. Under the terms of the agreement, the Company's stockholders would have received a number of shares of PSC common stock based upon the average closing price of PSC common stock for a 20-trading day period ending shortly before the closing of the merger. The merger was subject to several conditions, including, among other things, the satisfaction of the applicable requirements under the Hart-Scott-Rodino Antitrust Improvements Act, approval by the shareholders of the Company and approval by the New Hampshire Public Utilities Commission ("NHPUC"). The review of the merger by the NHPUC and approval by the Company's shareholders was expected to occur in the first half of 2003.

However, on November 26, 2002, the Board of Aldermen of the City of Nashua, New Hampshire, adopted a resolution calling for a referendum on January 14, 2003, that, if passed, would authorize Nashua to pursue the acquisition, by an eminent domain proceeding or otherwise, of all or a portion of Pennichuck's water system serving the residents of Nashua and others. The voters of Nashua passed the referendum on January 14, 2003, by more than a three-to-one margin. Subsequently, on February 4, 2003, the Company announced that it had reached an agreement with PSC to terminate PSC's pending acquisition of the Company. The decision to terminate the merger agreement resulted from the ongoing efforts by the City of Nashua (the "City") to acquire Pennichuck's utility operating assets by eminent domain. Expenses associated with the pending PSC merger transaction and related issues total approximately $1,946,192 for the year ended December 31, 2002. Those expenses are broken down as follows:

Investment banking fees	$1,086,000
Legal and other fees relating to merger and regulatory approval	860,192
Total merger and related costs	$1,946,192

Under current Internal Revenue Code regulations, costs relating specifically to the merger transaction may be deductible for Federal income tax purposes in the year in which the merger is terminated. As a result, the Company has recorded a deferred tax asset of approximately $580,000, which is expected to be realized in 2003.

Pending Municipalization Offer

In accordance with New Hampshire law, the City formally notified the Company's utility subsidiaries on February 5, 2003 of its intention to acquire all or a portion of their operating assets. However, the City was not required to propose a purchase price for such assets in its initial notification to the utility subsidiaries. The Company's three regulated utilities have 60 days in which to respond to the City. On March 25, 2003, the Company's three utilities notified the City of their decision not to sell their operating assets. Under New Hampshire statutes, the City has the right to seek the NHPUC's authorization to compel the sale of those operating assets through an eminent domain proceeding. By letter dated March 26, 2003, the City indicated its intent to pursue such an eminent domain proceeding. It is not certain whether the City will acquire all or any portion of the three utilities' operating assets even if the NHPUC were to approve such an acquisition and establish a price for it.

Pending Regulatory Investigation

The Company has been informed by the Securities and Exchange Commission and the New Hampshire Bureau of Securities Regulation that it is the subject of related investigations by each agency. The Company understands that those investigations relate to various real estate development joint ventures, and include a real estate transaction between one of those joint ventures and Maurice L. Arel, the Company's President, and the Company's previous public disclosure regarding that transaction. The Company's board of directors has retained legal counsel to conduct an independent review of such matters, under the direction of the Company's Audit Committee, and has instructed the Company and counsel to cooperate fully with both investigations. The independent review is ongoing with the cooperation of all executive officers.

Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB for that year, disclosed that an executive officer had purchased a home in 1998 from a joint venture between a Pennichuck subsidiary and an unaffiliated real estate developer. Note A stated that the terms of the home purchase "were the same as the terms which would be given to any independent third-party purchaser." Mr. Arel is the executive referenced in that disclosure. The Audit Committee has obtained information indicating that Mr. Arel's 1998 home purchase in fact was not on terms that would have been available then to any independent third-party purchaser. The Audit Committee is continuing to investigate the matter to determine, among other things, the financial impact of the transaction on the Company, the value of any benefits received by Mr. Arel in that transaction, the circumstances surrounding the preparation of the disclosure in Note A to the 1998 financial statements, and what, if any, action the Company should take against Mr. Arel or others.

Although the Company is cooperating fully with the regulatory investigations, the SEC and the New Hampshire Bureau of Securities Regulation, upon the completion of their respective investigations, could seek to impose fines, penalties or other sanctions upon the Company.

Operating Leases

The Company leases miscellaneous office equipment through operating leases. Total rental expense for operating leases was approximately $24,300, $17,600 and $8,100 for 2002, 2001 and 2000, respectively.

At December 31, 2002, the scheduled minimum lease payments under the Company's operating leases are as follows:

	2003	2004	2005	2006	2007
Operating lease payments	$20,407	$18,503	$18,403	$854	$—

NOTE 10 - GUARANTEES

As discussed in Note 4, Southwood has issued a financial guarantee of one-half of the outstanding mortgage balances associated with HECOP I, LLC, HECOP II, LLC and HECOP III, LLC (collectively, the "limited liability companies"). At December 31, 2002, Southwood was contingently liable on approximately $4.725 million of mortgage indebtedness associated with those limited liability companies.

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 11 - SUPPLEMENTAL DISCLOSURES ON CASH FLOW AND NON-CASH ITEMS

Supplemental cash flow information for the three years ended December 31 is presented below:

	2002	2001	2000
Cash paid during the year for:			
Interest	$1,931,145	$1,972,283	$1,905,473
Income taxes	$645,070	$1,214,973	$1,349,149
Non-cash items:			
Contributions in aid of construction	$3,168,315	$2,077,217	$3,316,527
Minimum pension liability adjustment:			
Accrued pension liability	$614,669	$—	$—
Deferred tax and other	$404,858	$—	$—
Other comprehensive (loss)	$(619,017)	$—	$—

NOTE 12 - BUSINESS SEGMENT INFORMATION

Pennichuck Corporation's operating activities are grouped into three primary business segments as follows:

Water utility - Involved in the collection, treatment and distribution of potable water for domestic, industrial, commercial and fire protection service in the City of Nashua and certain surrounding communities in southern and central New Hampshire.
Real estate - Involved in the ownership, development, management and sale of industrial and residential property in Nashua and Merrimack, New Hampshire.
Contract operations and other - Includes the contract operations and laboratory testing activities of the Service Corporation and sundry activities of the Company.

NOTE 12 - BUSINESS SEGMENT INFORMATION (Continued)

The tables below present information about Pennichuck Corporation's three primary business segments for the years ended December 31, 2002, 2001 and 2000.

	2002	2001	2000
Operating revenues:			
Water utility	$18,829,418	$17,411,760	$15,963,540
Real estate	3,088,007	4,156,556	6,989,006
Contract operations & other	1,504,131	1,186,022	718,930
Total operating revenues	$23,421,556	$22,754,338	$23,671,476
Operating income:			
Water utility	$6,044,113	$5,002,983	$4,349,211
Real estate	1,337,604	3,244,462	4,632,404
Contract operations & other	265,555	304,697	234,305
Total operating income	$7,647,272	$8,552,142	$9,215,920
Capital additions:			
Water utility	$8,412,783	$8,210,756	$7,735,483
Real estate	—	—	—
Contract operations & other	29,864	400	4,833
Total capital additions	$8,442,647	$8,211,156	$7,740,316
Identifiable assets:			
Water utility	$85,713,641	$79,458,338	$73,547,121
Real estate	1,787,346	3,524,382	4,053,620
Contract operations & other	3,480,927	4,647,469	5,279,265
Total identifiable assets	$90,981,914	$87,630,189	$82,880,006
Depreciation and amortization expense:			
Water utility	$2,680,898	$2,590,524	$2,225,329
Real estate	—	412,742	912,221
Contract operations & other	94,991	43,696	34,216
Total depreciation and amortization expense	$2,775,889	$3,046,962	$3,171,766

The operating revenues within each business segment are sales to unaffiliated customers. Operating income is defined as segment revenues less operating expenses including allocable Parent Company expenses attributable to each business segment as shown below.

	2002	2001	2000
Allocated parent expenses:			
Water utility	$443,734	$522,180	$522,231
Real estate	49,491	58,581	5,615
Contract operations	33,162	25,960	33,692
Total allocated parent expenses	$526,387	$606,721	$561,538

Within the water utility business segment, one customer accounted for approximately 10 percent of total operating revenues in 2002 and 2001 and approximately 11% in 2000. During 2002, 2001 and 2000, the water utility recorded $1,842,000, $1,809,000 and $1,755,000, respectively, in water revenues which were derived from fire protection and other billings to the City of Nashua.

NOTE 13 - QUARTERLY FINANCIAL DATA (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands of dollars, except per share amounts)			
2002				
Operating Revenues	$6,865	$5,053	$6,537	$4,967
Operating Income	1,672	1,459	2,910	1,606
Net Income	630	(709)	1,377	1,043
Basic Earnings Per Share	$ .26	($ .30)	$ .58	$ .44
2001				
Operating Revenues	$4,410	$5,573	$5,654	$7,117
Operating Income	1,129	2,074	2,122	3,227
Net Income	415	966	1,008	1,223
Basic Earnings Per Share	$ .18	$ .41	$ .42	$ .51
2000				
Operating Revenues	$4,135	$4,453	$5,945	$9,138
Operating Income	1,197	1,383	2,516	4,120
Net Income	460	596	1,150	1,477
Basic Earnings Per Share	$ .19	$ .26	$ .49	$ .62

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On March 26, 2002, the Company determined not to renew the engagement of its then independent accountants, Arthur Andersen LLP, and to appoint PricewaterhouseCoopers LLP as its new independent accountants, subject to ratification of the Company's shareholders at its 2002 annual meeting of shareholders. The determination not to renew the engagement of Arthur Andersen LLP and to retain PricewaterhouseCoopers LLP was approved by the Board of Directors upon recommendation of its Audit Committee. Arthur Andersen was dismissed effective as of March 31, 2002.

Arthur Andersen LLP's reports on the Company's financial statements for the fiscal years ended December 31, 2000, and December 31, 2001, did not contain an adverse opinion or a disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope, or accounting principles. During the Company's fiscal years ended December 31, 2000, and December 31, 2001, and the subsequent interim period through March 26, 2002, there were no disagreements with Arthur Andersen LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Arthur Andersen LLP, would have caused them to make reference to the subject matter of the disagreements in connection with their reports. None of the reportable events described under Item 304 (a)(1)(v) of Regulation S-K occurred within the Company's fiscal years ended December 31, 2000, and December 31, 2001, and the subsequent interim period through March 26, 2002.

During the Company's fiscal years ended December 31, 2000, and December 31, 2001, and the subsequent interim period through March 26, 2002, the Company did not consult with PricewaterhouseCoopers LLP regarding any of the matters or events set forth in Item 304 (a)(2)(i) and (ii) of Regulation S-K.

PART III:

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated by reference to the registrant's definitive proxy statement for the 2003 annual meeting of the registrant's shareholders to be filed with the Commission; or, to be filed by amendment to this report.

Item 11. EXECUTIVE COMPENSATION

Incorporated by reference to the registrant's definitive proxy statement for the 2003 annual meeting of the registrant's shareholders to be filed with the Commission; or, to be filed by amendment to this report.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference to the registrant's definitive proxy statement for the 2003 annual meeting of the registrant's shareholders to be filed with the Commission; or, to be filed by amendment to this report.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference to the registrant's definitive proxy statement for the 2003 annual meeting of the registrant's shareholders to be filed with the Commission; or, to be filed by amendment to this report.

Item 14. CONTROLS AND PROCEDURES

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation as of a date within 90 days of the filing date of this Annual Report on Form 10-K, the principal executive officer and principal financial officer of Pennichuck Corporation have concluded that Pennichuck Corporation's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by Pennichuck Corporation in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in applicable Securities and Exchange Commission rules and forms.

There were no significant changes in Pennichuck Corporation's internal controls or in other factors that could significantly affect those controls subsequent to the date of their most recent evaluation.

PART IV:

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

(1) The following Consolidated Financial Statements of Pennichuck Corporation and subsidiaries for the year ended December 31, 2002, are included in Part II, Item 8 hereof and are incorporated herein by reference:

Report of Independent Public Accountants

Consolidated Balance Sheets at
December 31, 2002 and 2001

Consolidated Statements of Income for each of
the years ended December 31, 2002, 2001 and 2000

Consolidated Statements of Stockholders'
Equity for each of the years ended December 31,
2002, 2001 and 2000

Consolidated Statements of Cash Flows for each
of the years ended December 31, 2002, 2001
and 2000

Notes to Consolidated Financial Statements

(2) The following Financial Statement Schedules of Pennichuck Corporation for each of the years 2002, 2001 and 2000 are included in this report:

Report of Independent Public Accountants
on Schedules for the years ended
December 31, 2002, 2001 and 2000

I - Condensed Financial Information of Registrant
II - Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

(3) Exhibit Index:

Exhibit Number	Description of Exhibit
3.1	Restated Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.1 to the Company's 1990 Form 10-K Report and incorporated herein by reference)
3.2	Articles of Amendment to the Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.2 to the Company's 1994 Form 10-KSB Report and incorporated herein by reference)
3.3	Bylaws of Pennichuck Corporation (Filed as Exhibit 3.3 to this Form 10-K Report)
3.4	Articles of Amendment to the Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.4 to the Company's 1999 second quarter Form 10-QSB Report and incorporated herein by reference)
3.5	Articles of Amendment to the Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.5 to the Company's 2000 second quarter Form 10-QSB Report and incorporated herein by reference)
3.6	Certificate of Designation of Series A Junior Participating Preferred Stock of Pennichuck Corporation (Filed as Exhibit 3.6 to the Company's 2000 second quarter Form 10-QSB Report and incorporated herein by reference)
4.1	Rights Agreement dated as of April 20, 2000 between Pennichuck Corporation and Fleet National Bank, as Rights Agent (Exhibit 3.2 to the Company's Registration Statement on Form 8-A12G, filed on April 21, 2000, and incorporated herein by reference)
4.2	Amendment to Rights Agreement dated October 10, 2001, by and between Pennichuck Corporation and Fleet National Bank (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on April 30, 2002).
4.3	Second Amendment to Rights Agreement dated January 14, 2002, by and between Pennichuck Corporation and EquiServe Trust Company, N.A. (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on April 30, 2002).

Exhibit Number	Description of Exhibit
4.4	Agreement of Substitution and Amendment of Common Shares Rights Agreement dated January 15, 2002, by and between Pennichuck Corporation and American Stock Transfer & Trust Company (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on April 30, 2002)
4.5	Amendment to Rights Agreement dated April 29, 2002, by and between Pennichuck Corporation and American Stock Transfer & Trust Company (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 29, 2002)
10.1	Deferred Compensation Program for Directors of Pennichuck Corporation (Filed as Exhibit 10.2 to the Company's 1997 Form 10-KSB Report and incorporated herein by reference)
10.2	Amended Line of Credit Agreement dated October 2, 1991 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.7 to the Company's 1991 Form 10-K Report and incorporated herein by reference)
10.3	Second Amendment dated March 23, 1994, to Line of Credit Agreement between Pennichuck Corporation and Fleet Bank-NH dated October 2, 1991 (Filed as Exhibit 10.7 to the Company's 1994 first quarter Form 10-QSB Report and incorporated herein by reference)
10.4	Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994, between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.8 to the Company's 1994 second quarter Form 10-QSB Report and incorporated herein by reference)
10.5	Insurance Funded Deferred Compensation Agreement dated June 13, 1994, (Filed as Exhibit 10.9 to the Company's 1994 second quarter Form 10-QSB Report and incorporated herein by reference)
10.6	Amendment Agreement dated May 4, 1995, to Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994, between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.8 to the Company's 1995 second quarter Form 10-QSB Report and incorporated herein by reference)

Exhibit Number	Description of Exhibit
10.7	1995 Stock Option Plan (Filed as Exhibit 4.1 to the Company's Post-Effective Amendment No. 1 to Registration Statement on Form S-8, filed September 17, 2001, No. 333-57352, and incorporated herein by reference)
10.8	Amendment Agreement dated July 31, 1996, to Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994, between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.10 to the Company's 1996 third quarter Form 10-QSB Report and incorporated herein by reference)
10.9	Amendment Agreement dated March 18, 1998, to Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994, between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.10 to the Company's 1998 first quarter Form 10-QSB report and incorporated herein by reference)
10.10	Loan Agreement dated April 8, 1998, between Pennichuck Corporation, Pennichuck East Utility, Inc. and Fleet Bank NH (Filed as Exhibit 10.11 to the Company's 1998 second quarter Form 10-QSB report and incorporated herein by reference
10.11	Amendment Agreement dated April 24, 1998, to Loan Agreement dated April 8, 1998 between Pennichuck Corporation, Pennichuck East Utility, Inc., The Southwood Corporation, Pennichuck Water Service Corporation and Fleet Bank-NH (Filed as Exhibit 10.12 to the Company's 1998 second quarter Form 10-QSB report and incorporated herein by reference)
10.12	Employment Agreement by and between Pennichuck Corporation and Maurice L. Arel (Filed as Exhibit 10.13 to the Company's 1998 Form 10-KSB Report and incorporated herein by reference)
10.13	Form of Change of Control Agreement by and between Pennichuck Corporation and executive officers (Stephen J. Densberger, Charles J. Staab, Bonalyn J. Hartley and Donald L. Ware) each dated January 8, 1999, (Filed as Exhibit 10.14 to the Company's 1999 first quarter Form 10-QSB Report and incorporated herein by reference)

Exhibit Number	Description of Exhibit
10.14	Amendment Agreement dated August 24, 1999, to Amended and Revolving Line of Credit Agreement dated March 23, 1994, between Pennichuck Corporation, Pennichuck Water Works, Inc. and Fleet Bank-NH (Filed as Exhibit 10.15 to the Company's 1999 third quarter Form 10-QSB Report and incorporated herein by reference)
10.15	2000 Stock Option Plan (Exhibit 4.1 to the Company's Post-Effective Amendment No. 1 to Registration Statement on Form S-8, No. 333-57354, filed on September 17, 2001, and incorporated herein by reference
21	Subsidiaries of Pennichuck Corporation (Filed as Exhibit 21 to the Company's 1997 Form 10-KSB Report and incorporated herein by reference)
23	Consent of PricewaterhouseCoopers LLP (Filed as Exhibit 23 to this Form 10-K Report)
99.1	Dividend Reinvestment and Common Stock Purchase Plan, as amended (Filed as Exhibit 4.1 to Post-effective Amendment No. 2 to Registration Statement on Form S-3 filed on February 6, 2002, and incorporated herein by reference)
99.3	Statement(s) under Section 906 of the Sarbanes-Oxley Act of 2002 furnished by Maurice L. Arel, President and Principal Executive Officer and Charles J. Staab, Vice President, Treasurer and Principal Financial Officer (Filed as Exhibit 99.3 to this Form 10-K Report)

(b) Reports on Form 8-K: The Company did not file a report on Form 8-K during the fourth quarter of the fiscal year covered by this report.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Pennichuck Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements included in Pennichuck Corporation's report on this Form 10-K, and have issued our report thereon dated February 26, 2003. Our audits were made for the purpose of forming an opinion on those basic financial statements taken as a whole. The schedule listed in the attached index of this Form 10-K is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
February 26, 2003

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Pennichuck Corporation
Condensed Balance Sheets

	December 31 2002	December 31 2001
ASSETS		
Current Assets:		
Cash and cash equivalents	$2,321,301	$3,255,130
Refundable income taxes	334,034	312,285
Prepaid expenses and other	6,214	70,433
Total Current Assets	2,661,549	3,637,848
Property and Equipment	1,269,052	1,251,202
Less allowances for depreciation	(614,740)	(591,998)
	654,312	659,204
Other assets	8,119	20,133
Deferred tax asset	781,234	
Investment in subsidiaries	29,205,052	28,210,490
	$33,310,266	$32,527,675
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and other current liabilities	$313,398	$189,399
Long term debt	1,500,000	1,500,000
Other long term liabilities	540,720	408,431
Stockholders' equity	30,956,148	30,429,845
	$33,310,266	$32,527,675

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continu

Pennichuck Corporation
Condensed Statements of Income

	December 31		
	2002	2001	2000
Operating revenues	$45,477	$228,497	$57,395
Operating expenses, including merger related costs	1,926,885	67,021	—
Operating Income (Loss)	(1,881,408)	161,476	57,395
Interest income & other	56,249	152,918	198,104
Interest (Expense)	(138,676)	(173,911)	(88,277)
Income (Loss) Before Income Taxes and Equity in Net Income of Subsidiaries	(1,963,835)	140,483	167,222
Income Tax (Provision)	797,875	(55,645)	(65,685)
Income (Loss) Before Equity in Earnings of Subsidiaries	(1,165,960)	84,838	101,537
Equity in Earnings of Subsidiaries	3,506,539	3,526,866	3,581,124
NET INCOME	$2,340,579	$3,611704	$3,682,661

Condensed Statements of Cash Flows

	December 31		
	2002	2001	2000
OPERATING ACTIVITIES	$(1,544,836)	$221,425	$(99,797)
INVESTING ACTIVITIES:			
Equity Transfer from (to) to Subsidiary	1,896,693	(1,252,087)	(944,844)
Net (increase) decrease in Property and Equipment and Other Assets	(17,850)	(12,414)	—
	1,878,843	(1,264,501)	(944,884)
FINANCING ACTIVITIES:			
Advances from Subsidiaries	615,281	2,157,789	3,836,929
Payment of Dividends	(1,943,938)	(1,812,864)	(1,701,189)
Proceeds from Dividend Reinvestment and Other, net	60,821	275,428	356,851
	(1,267,836)	620,353	2,492,591
(DECREASE) INCREASE IN CASH	(933,829)	(422,723)	1,447,910
Cash at Beginning of Year	3,255,130	3,677,853	2,229,943
CASH AT END OF YEAR	$2,321,301	$3,255,130	$3,677,853

Pennichuck Corporation
Notes to Condensed Financial Statements

NOTE A — ACCOUNTING POLICIES

Basis of Presentation. In the parent-company-only financial statements, the Company's investment in its subsidiaries is stated at cost plus equity in undistributed earnings of its subsidiaries. Parent-company-only financial statements should be read in conjunction with the Company's Annual Report to Shareholders for the year ended December 31, 2002.

NOTE B — COMMON DIVIDENDS FROM SUBSIDIARIES

Common stock cash dividends paid to Pennichuck Corporation by its subsidiaries were as follows:

	2002	2001	2000
Pennichuck Water Works, Inc.	$1,829,429	$1,731,129	$1,631,039
Pittsfield Aqueduct Company, Inc.	—	—	—
Pennichuck East Utility, Inc.	114,509	71,385	70,15
TOTAL	$1,943,938	$1,802,514	$1,701,189

A cash dividend of $10,350 was paid by Pennichuck Corporation for fractional shares due to a stock split in December 2001.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

	Balance at beginning of Period	Charged to costs and expenses	Deductions(1)	Balance at End of Period
Allowance for doubtful accounts:				
2002	$83,998	$(13,655)	$29,878	$40,465
2001	$37,000	$73,428	$26,430	$83,998
2000	$37,000	$23,821	$23,821	$37,000

(1) Amounts include accounts receivable write-offs net of recoveries.

Valuation allowance for deferred tax asset (2):				
2002	$ —	$300,000	$ —	$300,000
2001	$ —	—	—	$ —
2000	$ —	—	—	$ —

(2) See Note 2 in the Notes to the accompanying Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Pennichuck Corporation
(Registrant)

Date: March 31, 2003

By: /s/ Maurice L. Arel
Maurice L. Arel, President and
Chief Executive Officer

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

Signature	Title	Date
/s/ Maurice L. Arel Maurice L. Arel	President, Chief Executive Officer and Director (Principal Executive Officer)	March 31, 2003
/s/ Stephen J. Densberger Stephen J. Densberger	Executive Vice President and Director	March 31, 2003
/s/ Charles J. Staab Charles J. Staab	Vice President, Treasurer, Chief Financial Officer and Director (Principal Financial Officer and Principal Accounting Officer)	March 31, 2003
/s/ Joseph A. Bellavance Joseph A. Bellavance	Director	March 31, 2003
/s/ Charles E. Clough Charles E. Clough	Director	March 31, 2003
/s/ Robert P. Keller Robert P. Keller	Director	March 31, 2003
/s/ John R. Kreick John R. Kreick	Director	March 31, 2003

/s/ Hannah M. McCarthy Hannah M. McCarthy	Director	March 31, 2003
/s/ Martha E. O'Neill Martha E. O'Neill	Director	March 31, 2003

Five-Year Selected Data

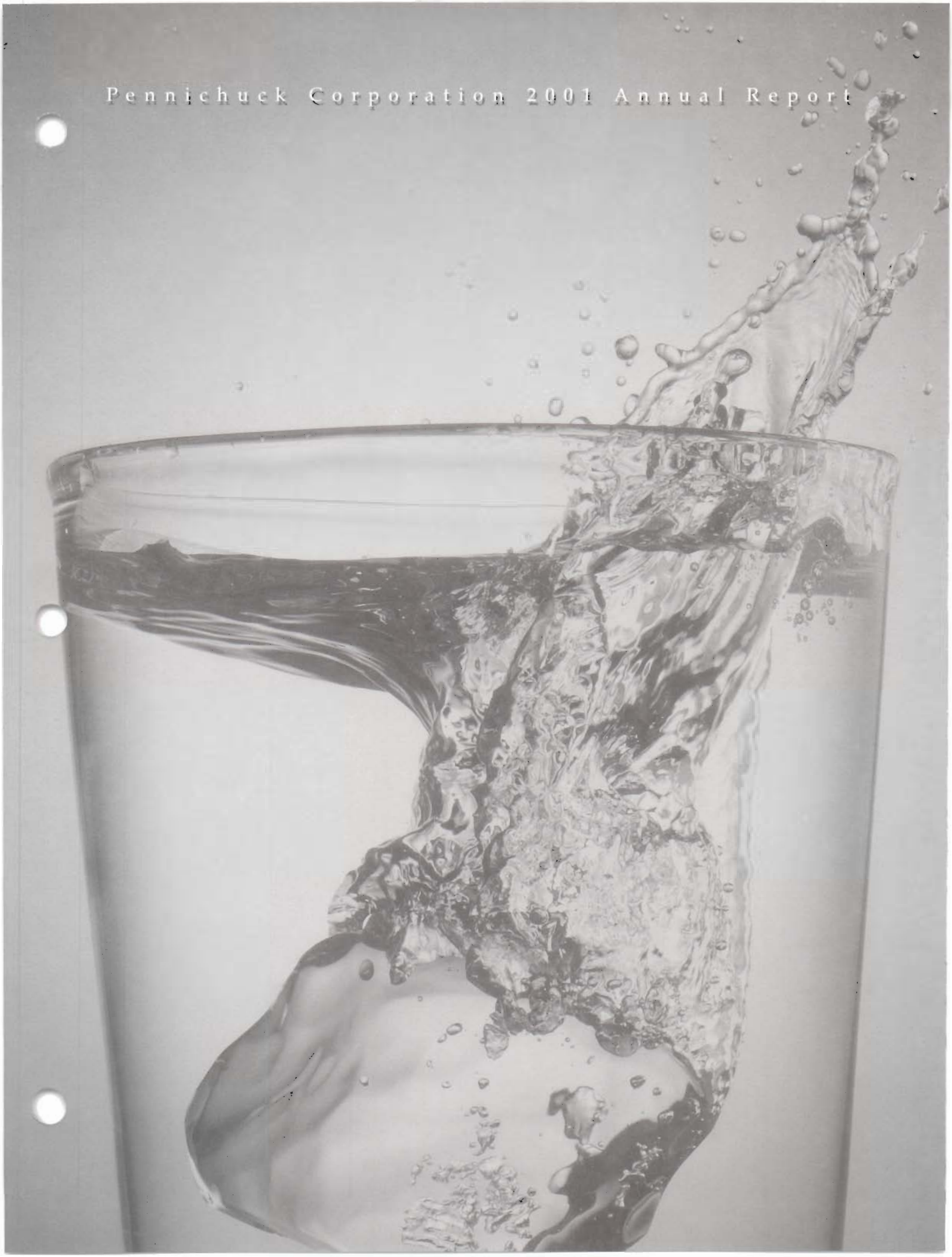
	2002	2001	2000	1999	1998
Operating revenues (in $000's)	$23,422	$22,754	$23,671	$17,809	$17,395
Net income (in $000's)	$2,341	$3,612	$3,683	$2,616	$2,106
Earnings per share - basic (1)	$0.98	$1.52	$1.56	$1.12	$1.21
Cash dividends declared per share of common stock (1)	$0.813 (2)	$0.76	$0.73	$0.69	$0.59
Total assets (in $000's)	$90,982	$87,630	$82,880	$75,581	$70,838
Long-term debt (in $000's)	$27,214	$27,420	$27,237	$28,266	$28,185
Weighted average shares outstanding - basic (in $000's)	2,391	2,382	2,361	2,328	1,742
Book value per share (1)	$12.72	$12.91	$12.17	$11.27	$10.88
Utility plan additions (in $000's)	$8,413	$8,211	$7,735	$6,718	$11,209
Water delivered (million gallons per day)	15.23	16.18	15.86	14.91	14.44
Mains (miles)	533	521	495	481	470
Services:					
Core & Communities	23,348	22,808	22,380	22,213	21,422
Pittsfield Aqueduct	640	639	628	625	623
Pennichuck East	4,475	4,277	4,139	3,804	3,766
Meters	29,015	28,646	27,243	26,642	25,984
Hydrants	2,717	2,664	2,634	2,583	2,540
Rainfall	43.07	30.64	57.62	42.87	47.36
Employees	81	80	72	71	66

(1) Prior years' per share amounts have been restated to reflect the four-for-three stock split in December 2001.

(2) Includes a one-time special dividend of $.033 per share.

Pennichuck Corporation
4 Water Street
P.O. Box 448
Nashua, NH 03061-0448
800.553.5191
603.882.5191
Fax 603.882.4125
www.pennichuck.com

Pennichuck Corporation 2001 Annual Report



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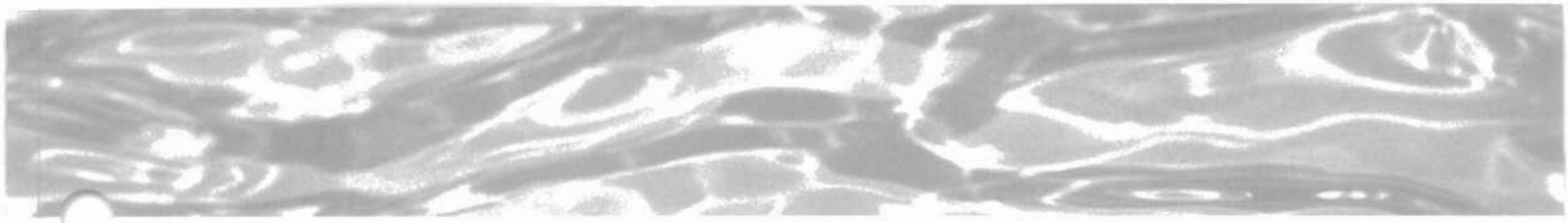
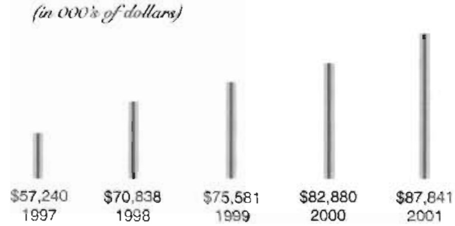


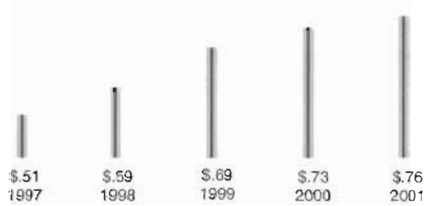
Financial Highlights

Total Assets
(in 000's of dollars)



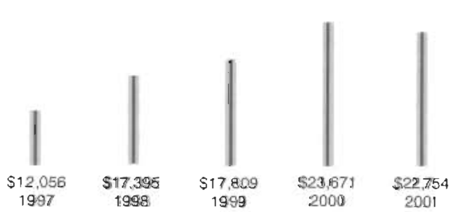
Net Income
(in 000's of dollars)

Dividends per Share



Basic Earnings per Share

Consolidated Revenues
(in 000's of dollars)



Letter to Shareholders

Dear Shareholders:

As we embark on our one-hundred-and-fiftieth year in business, one cannot help but be impressed by the growth and accomplishments that have transformed Pennichuck from its relatively humble beginnings as a small community water utility, into the Company you know today. A lot has changed since 1852, when all our supply pipes were dug by hand, horses and water wheels provided the power to drive our mechanical pumps, and natural springs and a small brook comprised our entire water supply. Today, Pennichuck operates four major dams that impound huge volumes of water, a state-of-the-art, computer-controlled water treatment plant, and a fleet of 52 service vehicles. Almost every pipe, valve and meter in our network is mapped electronically on GIS, our Geographical Information System, and virtually our entire operation is monitored by a Supervisory Control and Data Acquisition system (SCADA), enabling automatic, remote monitoring of our numerous facilities and pumping stations by computer. Over the years, Pennichuck has evolved into the largest water utility in the state of New Hampshire, serving a population of more than 85,000 people in the city of Nashua, and over 30,000 people in 22 cities and towns throughout southern New Hampshire and northern Massachusetts. In the beginning, just a handful of entrepreneurs founded your Company and provided the operating capital. Today, Pennichuck is a holding company comprised of five subsidiaries, and we enjoy the support of over 2,000 individual shareholders, like you, in 45 states across America.

150 years ago, Pennichuck was focused strictly on bringing running water into homes that had none. Today, the scope of Pennichuck's operations has expanded dramatically, to also include contract operation and maintenance of water systems, real estate sales and management, in addition to the more traditional, regulated public utility areas of the water supply industry. Back then, success was measured by the number of feet of new water main that was put into the ground. Today, we measure our financial success in terms of the growth in our customer base, and in increased revenue and earnings. So it gives me great pleasure to say that, by any measure, 2001 was a successful year for your Company, and in all areas of our business.

Total consolidated revenues for 2001 were $22.8 million, compared to $23.7 million the previous year. Considering that the 2000 figure reflects a one-time sale of a major parcel of land in Westwood Park, for this year's revenue to be so close indicates an extremely positive result indeed. Consolidated earnings were $1.52 per share versus $1.56 last year, reflecting the four-for-three stock split that occurred on December 3, 2001. The stock split was designed to further improve liquidity and enhance trading volume of Pennichuck stock. In the fourth quarter, the Company increased its dividend for the eighth consecutive year. Annual revenues from our regulated water utilities were $17.4 million in 2001, increasing 9.1% from $16.0 million the previous year. Revenues from non-regulated water business and others also increased significantly, going from $719,000 in 2000 to $1,186,000 in 2001. Our real estate subsidiary, The Southwood Corporation, continued with another successful year, generating revenues of $4.2 million. Although this is lower than the $7 million Southwood posted the previous year, one must bear in mind that the 2000 figure was boosted by the unusually large land sale in Westwood Park.

Favorable weather conditions generated strong sales for our regulated water utilities, where we continued to see residential and commercial growth throughout our service areas driven by the robust economy in the first half of the year. Our revenue was further aided by an 8.52% temporary rate increase that was granted for our core system in September 2001, as part of an ongoing rate case proceeding which concluded in March of this year. It was also a very busy year given the numerous major capital projects that Pennichuck undertook during 2001. One of our most significant projects continues to be working on the Combined Sewer Overflow (CSO) program initiated by the City of Nashua. As part of this 10-year project, Pennichuck is taking the opportunity to replace existing water lines in the city and upgrade some of the oldest portions of our infrastructure. We also completed the construction of two separate interconnections into the Manchester Water Works supply system, one in Londonderry, and the other in Bedford, to provide a more reliable and economical source of supply for customers in these franchise areas. In addition, we replaced the storage tank in our Amherst Village District water system, and made much needed upgrades at a number of community water systems in our Pennichuck East Utility (PEU) franchise area, including construction of a new storage tank and the addition of fire protection in East Derry.

Looking forward, we must recognize that it will continue to be necessary for us to make substantial capital investments to fund improvements. Major projects on the horizon for our core system include continuing with our pipe replacement program in conjunction with the City of Nashua's CSO program, the relocation of pipes as the City of Nashua begins construction of the Broad Street Parkway, and upgrading the filters at Pennichuck Water Works' water treatment plant in order to assure that we meet the Safe Drinking Water Act (SDWA) enhanced surface water treatment rule. In addition, we will be working to upgrade many of our smaller community water systems in order to meet the ever-increasing challenge of addressing quantity and quality requirements.

We also achieved dramatic gains in the non-regulated side of the water business, where our aggressive efforts to market Pennichuck Water Service Company (PWSC) are truly starting to come to fruition. Early in the year, we established a management position to spearhead the sales and marketing of PWSC in order to secure management contracts for non-transient, non-community water systems, and to pursue operation and maintenance contracts for sizeable municipalities in the local region. We also implemented our new Watertight Protection Plan that protects consumers against expensive repairs in the event that they develop a leak in their household water service line. During the course of the year, PWSC was successful in obtaining 16 additional contracts for non-transient, non-community water systems, bringing our total to 38. These are defined as public facilities such as schools, daycare centers, businesses and apartment buildings that cater to 25 or more people and are served by a community well. PWSC also won the contract to operate the public water system for the town of Salisbury, Massachusetts, and enlisted over 1700 customers to our Watertight Protection Plan. Going forward, our challenge will be to increase customers in all three of these areas. Ultimately, our goal is for PWSC to provide a supplementary earnings stream to complement our regulated water business, such that when we take all our water-related operations – regulated and unregulated – as a whole, Pennichuck delivers a rate of return that is notably superior than is typical in the water industry.

2001 was also an extremely active year for The Southwood Corporation. In July, the sale of the final home marked the completion of our Heron Cove residential development. In addition, we sold two lots in Southwood Corporate Park, the first in March and the second in October. Then, in November, Southwood completed the sale of a 256-acre parcel of land in Westwood Park to the City of Nashua. This property will be used for conservation and recreation purposes, which will not only help protect the land, but will also serve as a protective buffer for the Pennichuck water supply. That same month, we purchased an additional parcel of land on Tinker Road that abuts more than 100 acres Pennichuck already owns. The combination of these two parcels will enhance the potential of both properties, and enable us to control the strategic development in this area. Our long-range objective is to acquire additional parcels which, when combined with existing properties, will enable us to develop a sustainable revenue stream for your Company.

On the eve of the one-hundred-and-fiftieth anniversary of your Company's founding, it is very gratifying to report that Pennichuck is in an extremely strong position, both financially and in regard to capitalizing on future growth opportunities. We are in the final stage in our development of a 10-year strategic plan that will establish the future direction for all our businesses, in both regulated and unregulated water operations, as well as in real estate development. 2001 was yet another highly successful year, and I am certain that our forefathers who founded your Company nearly 150 years ago would be extremely proud of Pennichuck, the diverse scope of our operations, and our continuing accomplishments.

In closing, I would like to express my gratitude to our employees and directors for their dedication and hard work. Since the very beginning, the enthusiastic support of shareholders has enabled Pennichuck to grow and prosper. Your backing is critical to our success today, just as it has been throughout our entire 150-year history. Thank you.

Sincerely,

Maurice L. Arel

Maurice L. Arel
President and Chief Executive Officer

Management's Discussion & Analysis of Financial Condition and Results of Operations

Introduction

Pennichuck Corporation (the "Company") has five wholly owned subsidiaries. Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. ("Pittsfield") are involved in water supply and distribution in cities and towns throughout southern and central New Hampshire. These water subsidiaries are regulated by the New Hampshire Public Utilities Commission (the "NHPUC") and, as such, they must obtain approval to increase their water rates to recover increases in operating expenses and to obtain the opportunity to earn a return on rate base investments. Pennichuck Water Service Corporation (the "Service Corporation") is involved in non-regulated, water-related services and contract operations, and The Southwood Corporation ("Southwood") owns, manages, develops and sells real estate.

As you read Management's Discussion and Analysis, please refer to the Company's Consolidated Financial Statements, Notes to Consolidated Financial Statements, and Selected Financial Data contained in this report.

Forward-Looking Statements

In addition to the historical financial information, this report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current information and expectations and on several assumptions concerning future events that involve risks, uncertainties and factors which may be beyond the Company's control. As such, the actual performance of the Company may be materially different from the future results or performance implied by the forward-looking statements contained in this report. Such factors include, among other things, changes in governmental regulations, changes in the economic and business environment that may impact demand for the Company's water and real estate products, changes in capital requirements that may affect the Company's level of capital expenditures and unusual changes in weather conditions that impact water consumption. Accordingly, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Results of Operations

In this section, we discuss our 2001, 2000 and 1999 results of operations and the factors affecting them. We begin with a general overview of our earnings per share ("EPS") generated by our core businesses.

Basic Earnings Per Share of Common Stock*

	Twelve Months Ended December 31		
	2001	2000	1999
Water utility operations	$ .81	$ .65	$ .88
Real estate operations	.63	.83	.16
Contract operations & other	.08	.08	.08
Consolidated basic EPS	$1.52	$1.56	$ 1.12

* *Restated for the four-for-three stock split effected December 2001*

Our consolidated revenues tend to be significantly affected by weather conditions experienced throughout the year and by sales of major real estate parcels which may occur from time to time (see discussion below). Water revenues are typically at their lowest point during the first and fourth quarters of the calendar year. However, water revenues in the second and third quarters tend to be greater because of increased water consumption for non-essential usage by our customers during the late spring and summer months.

Results of Operations – 2001 Compared to 2000

As indicated in the table above, there was a significant shift in the earnings among the Company's core businesses from 2000 to 2001. Although consolidated net income decreased 2% to $3.61 million in 2001 from $3.68 million in 2000, practically all of that decrease resulted from the fact that gains on two major land sales were realized in 2000 by Westwood Park LLC ("Westwood"), in which Southwood has a controlling 60% ownership interest. The impact of those sales alone on earnings per share was $.56 in 2000. As discussed below, the 2001 earnings from our utility operations, however, increased by $420,000, or $.18 per share over last year.

Water Utility Operations

On a combined basis, net income of our three utilities in calendar year 2001 was approximately $1.94 million compared to $1.52 million in 2000. Of the increase, $351,000 alone was attributed to Pennichuck, the Company's core water utility subsidiary, and $102,000 was attributed to Pennichuck East; net income for Pittsfield declined by almost $34,000.

Utility operating revenues for 2001 totaled $17.41 million – a 9% increase from 2000. For 2001, approximately 81%, 17% and 2% of our total utility operating revenues were generated by Pennichuck, Pennichuck East and Pittsfield, respectively, which was not materially different than in 2000.

The principal reasons for the increase in our utility revenues were:

- A $956,000 increase in billed consumption within Pennichuck's core system from 2000 to 2001, resulting from the extended hot and dry weather conditions during 2001 compared to 2000,
- An 8.52% temporary rate increase granted to Pennichuck effective on September 8, 2001, resulting in approximately $350,000 of additional revenues, and
- A 20.8% increase in billed consumption within Pennichuck East's system from 2000 to 2001, as a result of the weather conditions noted above.

In June 2001, Pennichuck, the Company's principal water utility subsidiary, filed for a 20.09% rate increase with the NHPUC, representing a request for $2.5 million in additional annual revenues. In connection with this rate filing, the NHPUC approved a temporary rate increase of 8.52% applied on bills rendered on or after September 8, 2001. On March 1, 2002, the NHPUC issued its final order, granting approval of an overall 14.43% revenue increase. The approved rate order includes an 8.67% rate increase on bills rendered on or after September 8, 2001, with an additional step adjustment of 5.76% on service rendered on or after March 1, 2002. The combined rate increases are expected to result in additional annual revenues of approximately $1.8 million based on comparable consumption levels experienced during the past two years. There were no other rate filings made by the Company's other regulated utilities during 2001. The operating expenses of our water utility business include such broad categories as:

- water treatment and purification,
- pumping and other distribution system functions,
- general and administrative functions,
- depreciation on existing operating assets, and
- taxes other than income taxes (principally property taxes).

Combined utility operating expenses increased by $794,000, or 6.8%, to $12.4 million for the twelve months ended December 31, 2001. This increase is attributable to (i) $182,000 of additional depreciation incurred by our three utilities during 2001 reflecting their $6 million net investment in new plant assets during 2001, and (ii) approximately $160,000, or 4.9%, for additional administrative costs, primarily health insurance and other employee benefit costs. As a result of the increase in utility revenues, offset partially by the increase in utility expenses, the utilities' combined operating income increased by $654,000 from 2000 to 2001. As a percentage of combined utility revenues, the utilities' operating margin increased from 27.2% in 2000 to 28.7% in 2001.

Real Estate Operations

Net income from our real estate operations was approximately $1.5 million and $1.96 million for the twelve months ended December 31, 2001 and 2000, respectively.

Real estate earnings during 2001 and 2000 were positively impacted by major real estate sales conducted through Westwood, in which Southwood has a 60% ownership interest. In 2001, Westwood sold a parcel of land to the City of Nashua for $2 million, and in 2000, Westwood sold two land parcels at a combined sales price of approximately $5.49 million. Southwood's share of the after-tax gain from these sales was $.30 per share and $.56 per share for calendar years 2001 and 2000, respectively.

In addition to the revenues generated by Westwood, other real estate revenues during 2001 included:

- $524,000 from Southwood's share of pretax profit from its residential joint venture known as Heron Cove LLC,
- $422,000 from the sale of two land parcels in Southwood Corporate Park,
- $100,000 from the sale of a residential land parcel to a local developer, and
- $141,000 from Southwood's share of pretax income relating to its 50% ownership in three commercial office buildings.

In connection with the last item above, Southwood holds a 50% ownership interest in each of the three limited-liability companies, known as HECOP I, II and III. Each limited liability company owns land and a commercial office building, subject to a mortgage note with a local bank. The mortgage notes, totaling approximately $9.6 million, which are not included in the accompanying Consolidated Balance Sheets, are each secured by the underlying real property; and in addition, Southwood and its partner have each provided guarantees of the notes. As of December 31, 2001, all combined office space, totaling approximately 147,000 square feet, had been leased under long-term lease agreements.

The operating expenses associated with our real estate operations decreased from $2.36 million in 2000 to $912,000 in 2001. Principally, all of this decrease relates to the allocated land and infrastructure development costs associated with the Westwood land sales in 2000 discussed earlier. The operating expenses in 2001 are comprised of (i) $79,000 of property taxes on Southwood's landholdings, (ii) $396,000 of allocated costs of land sales relating to Southwood Corporate Park, and (iii) $164,000 for intercompany management charges.

Contract Operations and Other

Revenues from Contract Operations and Other increased $467,000, or 65%, to $1,186,000 in 2001. Of that increase, $296,000 was generated by the Service Corporation as a result of (i) an additional 16 operating contracts signed during the year, and (ii) a new multi-year operating contract with a Massachusetts municipality which was entered into in September 2001. Under the terms of the contract, the Service

Corporation operates and maintains the municipality's water system, including all meter reading and billing functions. The Service Company earned nearly $108,000 of revenues during the fourth quarter of 2001 from that contract. Revenues from other operations increased $171,000 to $228,000 in 2001. This increase was primarily attributable to the sale of timber harvested from portions of the Company's undeveloped landholdings. Other revenues also include rental income from several tower leases totaling approximately $50,000 in each of 2001 and 2000.

The operating expenses associated with our Contract operations and other activities increased significantly from $485,000 in 2000 to $881,000 in 2001, principally as a result of:

- $117,000 in added contract operating costs relating to the acquisition of the new operating contract in Massachusetts as discussed above,
- $78,000 from increased intercompany management charges, and a
- $63,000 increase in costs relating to shareholder and other administrative matters.

Results of Operations – 2000 Compared to 1999

As indicated in the table on page 5, there was a significant shift in the earnings among the Company's core businesses from 1999 to 2000. Although consolidated net income increased nearly 41% to $3.68 million from $2.62 million in 1999, practically all of that increase resulted from the gains on two major land sales by Westwood. The impact of those sales alone on earnings per share was $.56 in 2000.

Our consolidated revenues in 2000 were $23.67 million compared to $17.81 million in 1999, an increase of $5.86 million or 33%. Of that increase, $5.49 million was attributable to the two Westwood land sales discussed above.

Water Utility Operations

On a combined basis, net income of our three utilities in calendar year 2000 was approximately $1.52 million, or $538,000 less than in 1999. Of that decrease, nearly $450,000 alone was attributed to Pennichuck, the Company's core water utility subsidiary while net income for Pennichuck East also declined by $107,000.

Utility operating revenues for 2000 totaled $15.96 million – a 2.25% decrease from 1999. For 2000, approximately 82%, 16% and 2% of our total utility operating revenues were generated by Pennichuck, Pennichuck East and Pittsfield, respectively, which was not materially different than in 1999.

The principal reasons for the decrease in our 2000 utility revenues were:

- A $490,000 decrease in billed consumption within Pennichuck's core system from 1999 to 2000 resulting from the unusually hot and dry months of June and July 1999 compared to the cooler and damper weather conditions experienced in 2000; offset however by

- An increase of 2.2% in the number of customers serviced by the three water utilities.

Our utility operating expenses increased by $609,000, or 5.5%, to $11.6 million for the twelve months ended December 31, 2000. That increase was attributable to (i) $189,000 of additional depreciation expense and $89,000 of additional property taxes incurred by our three utilities during 2000, reflecting their $3.5 million net investment in new plant assets during 2000 and $4.7 million in 1999, and (ii) approximately $160,000, or 4.9%, for additional administrative costs, primarily health insurance and other benefit costs. As a result of the decrease in utility revenues and increase in utility expenses from 1999 to 2000, the utilities' combined operating income as a percentage of combined utility revenues decreased from 32.6% to 27.2%, respectively, over this period.

Real Estate and Other Operations

Real estate earnings during 2000 were positively impacted by two principal land sales and by Southwood's involvement in residential joint ventures. The two major land sales alone accounted for nearly $1.22 million in net income for 2000. There were no such major land sales in 1999.

In 2000, real estate revenues increased to $6.99 million compared to $860,000 in 1999 for the following reasons:

- $5.49 million from the sale of two land parcels by Westwood Park, LLC in which Southwood has a 60% ownership interest,
- $1.33 million from two residential partnerships in which Southwood has a 50% ownership, and
- $100,000 from the sale of a one-half interest in a 6.3-acre land parcel to a local developer.

The robust housing market in southern New Hampshire during 2000 was reflected in the performance of the two residential partnerships in which Southwood participated. Ayers Crossing LLC, formed for the construction and sale of 7 homes, was begun and concluded in calendar year 2000. Heron Cove LLC began construction and sales in 1999 and in 2000, that partnership sold 42 homes to third parties compared to 30 homes in 1999. The remaining 15 homes were sold during 2001.

Revenues from contract operations conducted by the Service Corporation during 2000 increased $111,000 over 1999 to $650,000. Of that increase, nearly $80,000 was derived from 22 new contracts under which the Service Corporation performs various water-related monitoring, maintenance, testing and compliance reporting services for water systems throughout New Hampshire. Other operating revenues totaling $68,000 in 2000 and $78,000 in 1999 were derived from sundry lease and laboratory activities conducted by the Company and the Service Corporation.

The operating expenses associated with our real estate and other non-utility activities increased significantly from $728,000 in 1999 to $2.84 million in 2000. Of that increase, $1.87 million relates to the allocated land and development costs associated with the Westwood land sales discussed earlier. The remaining non-utility operating costs in 2000 were principally comprised of (i) $505,000 for contract operations and other services, (ii) $73,000 of property taxes on Southwood's landholdings, and (iii) $250,000 for property management and other costs associated with Southwood's real estate activities.

Liquidity and Financial Condition

The following paragraphs discuss the financial condition of the Company and its wholly owned subsidiaries. This discussion focuses primarily on the adequacy of available capital needed for our business activities.

Over the past two years, the primary sources of cash needed for normal operating activities, capital projects, debt service and dividend payments were (i) available cash from the Company's short-term investments, and (ii) operating cash flow generated from day-to-day business activities. During previous periods when available cash and operating cash flow were not sufficient, we have borrowed funds under a revolving loan facility (the "Loan Agreement") with our bank. The Loan Agreement allows the Company and its subsidiaries to borrow up to $2.5 million at interest rates tied to the bank's cost of funds or LIBOR, whichever is lower. However, during 2001, 2000 and 1999, there were no borrowings outstanding under this Loan Agreement.

At December 31, 2001 and 2000, the Company's cash equivalents, primarily short-term investments, totaled approximately $3.3 million and $3.7 million, respectively, which were available to fund any operating cash flow deficiencies and capital expenditures of the Company and its subsidiaries. Throughout 2001 and 2000, any available excess cash was invested in short-term money market funds, and as a result, the Company realized approximately $153,000 in interest income in 2001 and $141,000 in 2000. For calendar year 2001, the consolidated operating cash flow of the Company, before capital expenditures and common dividends, was $8.68 million, broken out by business segment as follows (in millions):

	2001	2000
Water utility operations	$ 6.21	$ 4.77
Real estate operations	2.12	2.29
Contract operations & other	.35	(.05)
	$ 8.68	$ 7.01

Given the one-time nature of the real estate sales that occurred in 2001 and 2000, there is no assurance that the significant contribution to consolidated cash flow generated from real estate activities will continue.

In January 2002, Southwood sold the remaining land in its Corporate Park for approximately $2.7 million, the gain from which will be recognized in the first quarter of 2002.

Our capital expenditures in 2001 totaled $6.0 million, net of approximately $2.2 million in the form of contributions in aid of construction from state grants and area developers. Practically all of our capital expenditures in 2001 were for projects relating to our water utility business. The more significant projects included:

- $1,594,000 for replacing aging distribution mains in Nashua and Pittsfield, New Hampshire.
- $1,546,000 for the construction of two new water storage tanks and restoration of one existing tank serving certain Pennichuck community water systems, and
- $357,000 for the final phase of developing and implementing software applications for a company-wide enterprise resource planning program.

The remaining items in the Company's 2001 capital program reflect expenditures for ongoing, routine investment in additional pump stations, new meters, services, distribution mains and hydrants and sundry system improvements. For 2002, we expect that our total expenditures for capital projects will be approximately $7.12 million, of which $1.13 million is expected to be funded by contributions in aid of construction, state grants and low-interest, state revolving loans. Our cash needs for capital expenditures are expected to be met from a combination of internally generated funds and short-term investments, and if needed, from borrowings under the Company's available line of credit.

Over the next several years, Pennichuck expects that its capital investment program will continue to include significant expenditures for replacing aging distribution mains in Nashua and in certain smaller community water systems. In 1999, the City of Nashua (the "City") began a public works program mandated by the United States Environmental Protection Agency ("EPA") requiring the City to separate its storm water runoff and sewer discharge systems over the next 10 years. Pennichuck will take the opportunity to replace any aged or deteriorating water mains in those sections where the City is performing its sewer separation work. In the past 3 years, Pennichuck has spent approximately $2.4 million replacing its aged mains and its 2002 capital budget includes approximately $850,000 for similar work. It is likely that Pennichuck will continue to spend $1 to $2 million annually on replacing its aging infrastructure within Nashua.

Dividend Reinvestment and Common Stock Purchase Plan

We offer a Dividend Reinvestment and Common Stock Purchase program that is available to our shareholders and residential utility customers. Under this program, our shareholders may reinvest all or a portion of their common dividends into shares of common stock at prevailing market prices. We also accept optional cash payments to purchase additional shares at 100% of the prevailing market prices. Since its inception in 1993, this program has provided the Company with nearly $1.6 million of additional common equity.

Environmental Matters

Our water utility subsidiaries are subject to the water quality regulations set forth by the EPA and the New Hampshire Department of Environmental Services ("DES"). The EPA is required to periodically set new maximum contaminant levels for certain chemicals as required by the federal Safe Drinking Water Act ("SDWA"). The quality of our treated water currently meets or exceeds all standards set by the EPA and the DES. However, increased monitoring and reporting standards have led to additional operating costs for us. Additional monitoring and testing costs arising from EPA and DES mandates should eventually be recouped through water rates in our utilities' next rate filings.

Pennichuck's filtration plant in Nashua is impacted by the Interim Enhanced Surface Water Treatment Rule ("IESWTR") which establishes a new turbidity standard of 0.3 NTU. Pennichuck is in the process of evaluating alternatives to meet the new IESWTR turbidity standard and it expects to determine what modifications will be required to its filtration plant by the fall of 2002.

Two of Pennichuck's small community water systems have wells that produce water with arsenic levels in excess of the new standard of 10 ppb. It will be necessary for Pennichuck to install arsenic treatment systems at these locations. Pennichuck's remaining community water systems have wells that produce water meeting the new arsenic standard.

Capital expenditures associated with federal and state water quality standards have historically been recognized and approved by the NHPUC for inclusion in our utilities' water rates.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"*. As amended by SFAS No. 137, *"Deferral of the Effective Date of SFAS No. 133"* and SFAS No. 138, *"An Amendment to SFAS No. 133"*, SFAS No. 133 establishes certain accounting and reporting standards requiring every derivative instrument to be recorded in the Company's balance sheet as either an asset or liability measured at its fair value. These statements require that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company adopted SFAS No. 133 as of January 1, 2001 as further discussed in Note C – Debt to the Consolidated Financial Statements.

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, *"Business Combinations"*. SFAS No. 141 addresses changes in the financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, *"Business Combinations"*, and SFAS No. 38, *"Accounting for Pre-acquisition Contingencies of Purchased Enterprises"*. Effective July 1, 2001, all business combinations should be accounted for using only the purchase method of accounting. The Company does not believe the adoption of this statement will have a material effect on its financial position, results of operations or cash flows.

In June 2001, the FASB issued SFAS No. 142, *"Goodwill and Other Intangible Assets"*, which requires use of a non-amortization approach to account for purchased goodwill and certain intangibles, effective January 1, 2002. Under the non-amortization approach, goodwill and certain intangibles will not be amortized into the results of operations, but instead will be reviewed for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles is more than its fair value. The Company does not have any goodwill recorded on its books and therefore, this statement is not expected to affect the Company.

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143, *"Accounting for Asset Retirement Obligations"* ("SFAS No. 143"). This statement requires that the fair value of the liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amounts of the long-lived assets. SFAS No. 143 is effective for all fiscal years beginning after June 15, 2002. The Company believes that the effect of adopting SFAS No. 143 will not be material to its financial position.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"* ("SFAS No. 144") which replaces SFAS No. 121, *"Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of"*. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Although SFAS No. 144 supercedes SFAS No. 121, it retains the fundamental provisions of SFAS No. 121 regarding recognition/measurement of impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. Under SFAS No. 144, asset write-downs from discontinuing a business segment will be treated the same as other assets held for sale. The new standard also broadens the financial statement presentation of discontinued operations to include the disposal of an asset group (rather than a segment of a business). SFAS No. 144 is effective beginning January 1, 2002 and, generally is to be applied prospectively. The Company is studying the potential financial impact of adopting this new standard; it does not expect any significant impact on its financial position and results of operations.

Board of Directors & Officers

Board of Directors

Maurice L. Arel, President, Chief Executive Officer, Pennichuck Corporation

Joseph A. Bellavance, President, Bellavance Beverage Company, Inc.

Charles E. Clough, President, Freedom Partners, LLC

Stephen J. Densberger, Executive Vice President, Pennichuck Corporation

Robert P. Keller, Chairman and Chief Executive Officer, InStar Services Group, Inc.

John R. Kreick, PhD., Chief Executive Officer, Lockheed Sanders, retired

Hannah M. McCarthy, President, Daniel Webster College

Martha E. O'Neill, Esquire, Clancy and O'Neill, P.A.

Charles J. Staab, Vice President, Chief Financial Officer and Treasurer, Pennichuck Corporation

Senior Board of Directors

John C. Collins

Executive Officers

Maurice L. Arel, President, Chief Executive Officer

Stephen J. Densberger, Executive Vice President

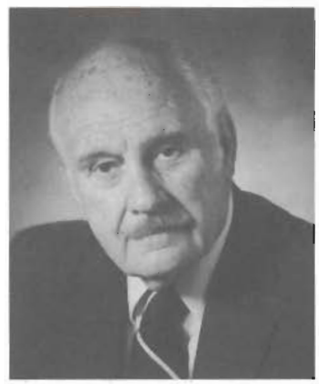
Charles J. Staab, Vice President, Chief Financial Officer and Treasurer

Bonalyn J. Hartley, Vice President - Administration

Donald L. Ware, Vice President, Chief Engineer

Corporate Secretary

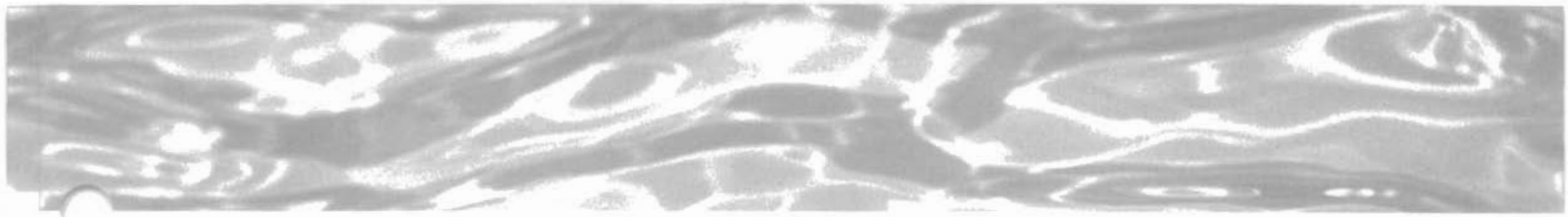
John T. Pendleton, Esquire



In Memoriam
John C. Collins
1918 - 2002

With the passing of John C. Collins, 1918-2002, Pennichuck mourns the loss of one of its most charismatic and respected leaders. Serving as president of Pennichuck from 1977 to 1984, Mr. Collins led the Company through its period of greatest change, with the construction of the treatment plant in Nashua, and the corporate restructuring that resulted in the creation of Southwood, our real estate subsidiary. After retiring as Pennichuck's president, Mr. Collins served as interim director of the New Hampshire Water Supply and Pollution Control Department, and oversaw the agency's restructuring and rebirth as the state's Department of Environmental Services.

An accomplished classical pianist, and veteran of the Normandy invasion in World War II, Mr. Collins will be remembered for his quick wit and dry, Irish humor. He continued to serve as a senior board member of Pennichuck at the time of his death.



Auditor's Report

REPORT OF ARTHUR ANDERSEN LLP, INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of Pennichuck Corporation:

We have audited the accompanying consolidated balance sheets of Pennichuck Corporation and subsidiaries (a New Hampshire corporation) as of December 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 financial statements referred to above present fairly, in all material respects, the financial position of Pennichuck Corporation and subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Boston, Massachusetts
February 15, 2002

Consolidated Balance Sheets

PENNICHUCK CORPORATION AND SUBSIDIARIES

ASSETS	December 31 2001	December 31 2000
Property, Plant and Equipment		
Land	$ 1,224,557	$ 1,211,903
Buildings	17,986,453	23,201,005
Equipment	79,435,709	65,948,723
Construction work in progress	260,007	528,542
	98,906,726	90,890,173
Less accumulated depreciation	(24,946,682)	(22,452,617)
	73,960,044	68,437,556
Current Assets		
Cash	3,272,240	3,731,634
Restricted cash	151,142	1,002,855
Accounts receivable, net of reserves of $83,998 in 2001 and $37,000 in 2000	1,245,636	1,395,606
Unbilled revenue	1,349,277	1,198,000
Note receivable	100,000	–
Refundable income taxes	124,935	370,134
Materials and supplies, at cost	364,487	354,002
Prepaid expenses and other current assets	479,900	400,896
	7,087,617	8,453,127
Other Assets		
Deferred land costs	2,390,576	2,521,560
Deferred charges and other assets	3,676,554	2,751,353
Investment in real estate partnerships	–	716,410
Notes receivable	725,750	–
	6,792,880	5,989,323
	$87,840,541	$82,880,006

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

Consolidated Balance Sheets, continued

PENNICHUCK CORPORATION AND SUBSIDIARIES

STOCKHOLDERS' EQUITY AND LIABILITIES	December 31 2001	2000
Stockholders' Equity		
Common stock – $1 par value – authorized 11,500,000 shares in 2001 and 2000; issued 2,389,019 shares in 2001 and 2,358,847 shares in 2000	$ 2,389,019	$ 2,358,847
Additional paid in capital	15,098,088	14,667,282
Retained earnings	13,544,696	11,753,399
Accumulated other comprehensive income – derivative instruments	(308,216)	–
	30,723,587	28,779,528
Less cost of 1,385 shares of common stock in treasury in 2001 and 7,346 shares in 2000	(128,488)	(183,895)
	30,595,099	28,595,633
Minority Interest	–	1,149,673
Preferred stock, no par value, 100,000 shares authorized, no shares issued in 2001 and 2000	–	–
Long-Term Debt, Less Current Portion	27,071,798	26,917,860
Current Liabilities		
Current portion of long-term debt	348,207	319,155
Accounts payable	1,373,120	724,832
Accrued interest payable	367,757	415,685
Other current liabilities	1,467,184	1,013,280
	3,556,268	2,472,952
Deferred Credits and Other Reserves		
Deferred income taxes	6,166,117	5,320,538
Deferred investment tax credits	1,032,210	1,065,246
Regulatory liability	1,169,658	1,179,689
Post-retirement health benefit obligation	690,723	593,267
Other liabilities	308,216	258,304
	9,366,924	8,417,044
Contributions in Aid of Construction	17,250,452	15,326,844
	$87,840,541	$82,880,006

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

Consolidated Statements of Income

PENNICHUCK CORPORATION AND SUBSIDIARIES

	Year Ended December 31		
	2001	2000	1999
Revenues			
Water utility operations	$17,411,760	$15,963,540	$16,331,633
Real estate operations	4,156,556	6,989,006	860,103
Contract operations and other	1,186,022	718,930	617,522
	22,754,338	23,671,476	17,809,258
Operating Expenses			
Water utility operations	12,408,777	11,614,329	11,005,271
Real estate operations	912,094	2,356,602	268,216
Contract operations and other	881,325	484,625	459,867
	14,202,196	14,455,556	11,733,354
Operating Income	8,552,142	9,215,920	6,075,904
Other Income	221,152	183,086	170,305
Interest Expense	(1,980,926)	(1,991,488)	(2,024,601)
Income Before Provision for Income Taxes	6,792,368	7,407,518	4,221,608
Provision for Income Taxes	2,657,420	2,869,993	1,625,212
Net Income Before Minority Interest	4,134,948	4,537,525	2,596,396
Minority Interest in Loss (Earnings) of Westwood Park LLC	(523,244)	(854,864)	19,269
Net Income	$ 3,611,704	$ 3,682,661	$ 2,615,665
Earnings Per Common Share:			
Basic	$1.52	$1.56	$1.12
Diluted	$1.50	$1.55	$1.12
Weighted Average Shares Outstanding:			
Basic	2,382,389	2,360,767	2,327,597
Diluted	2,400,088	2,369,272	2,340,879

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

Consolidated Statements of Stockholders' Equity

PENNICHUCK CORPORATION AND SUBSIDIARIES

	Common Stock-Shares	Common Stock-Amount	Additional Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income
Balances at December 31, 1998	2,284,847	$2,284,847	$13,820,759	$8,746,303	$(59,240)	$ --
Net income				2,615,665		
Dividend reinvestment plan	16,800	16,800	268,169			
Common dividends declared - $.69 per share				(1,590,041)		
Exercise of stock options	45,645	45,645	347,946		(279,783)	
Common equity issuance costs			(10,000)			
Director's fees and other deferred compensation plan			30,912		16,438	
Balances at December 31, 1999	2,347,292	2,347,292	14,457,786	9,771,927	(322,585)	--
Net income				3,682,661		
Dividend reinvestment plan	5,407	5,407	134,490		142,432	
Common dividends declared - $.73 per share				(1,701,189)		
Exercise of stock options	6,148	6,148	50,786		(44,953)	
Director's fees and other deferred compensation plan			24,220		41,211	
Balances at December 31, 2000	2,358,847	2,358,847	14,667,282	11,753,399	(183,895)	--
Net income				3,611,704		
Dividend reinvestment plan			110,450		141,636	
Common dividends declared - $.76 per share				(1,812,864)		
Exercise of stock options	8,468	8,468	103,221	(2,117)	(86,229)	
Other comprehensive income						(308,216)
Director's fee and other deferred compensation plan	21,704	21,704	217,135	(5,426)		
Balances at December 31, 2001	2,389,019	$2,389,019	$15,098,088	$13,544,696	$(128,488)	$(308,216)

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

Consolidated Statements of Cash Flows

PENNICHUCK CORPORATION AND SUBSIDIARIES

	Year Ended December 31		
	2001	2000	1999
Operating Activities:			
Net income	$3,611,704	$3,682,661	$2,615,665
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,046,962	3,171,766	2,141,767
Amortization of deferred investment tax credits	(33,036)	(33,036)	(33,036)
Provision for doubtful debt	46,998	--	--
Provision for deferred income taxes	930,639	944,895	926,574
Changes in assets and liabilities:			
Accounts receivable and unbilled revenue	(48,305)	(84,579)	(177,698)
Refundable income taxes	245,199	(98,822)	(219,793)
Materials and supplies	(10,485)	(42,290)	8,032
Prepaid expenses	(79,004)	322,670	2,765
Deferred charges and other assets	(1,422,568)	(176,809)	(865,345)
Accounts payable and accrued expenses	896,621	(79,755)	403,258
Other	87,425	78,796	96,166
Net cash provided by operating activities	7,272,150	7,685,497	4,898,355
Investing Activities:			
Purchases of property, plant & equipment	(8,211,156)	(7,740,316)	(6,735,185)
Contributions in aid of construction	2,193,665	4,191,247	2,012,082
(Increase) decrease in restricted cash	851,713	(1,001,958)	(258)
(Increase) decrease in investment in real estate partnerships	764,103	(322,081)	(231,148)
Net cash (used) in investing activities	(4,401,675)	(4,873,108)	(4,954,509)
Financing Activities:			
Payments on long-term debt	(319,155)	(1,041,816)	(182,224)
Proceeds from long-term borrowings	502,145	12,860	263,198
Net (increase) in notes receivable to a third party	(825,750)	–	–
Minority interest	(1,149,673)	854,864	(19,269)
Proceeds from dividend reinvestment plan and other, net	275,428	356,852	420,516
Dividends paid	(1,812,864)	(1,701,189)	(1,590,041)
Net cash (used in) provided by financing activities	(3,329,869)	(1,518,429)	(1,107,820)
Increase (decrease) in cash	(459,394)	1,293,960	(1,163,974)
Cash at beginning of year	3,731,634	2,437,674	3,601,648
Cash at end of year	$3,272,240	$3,731,634	$2,437,674

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

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of Pennichuck Corporation and subsidiaries are as follows:

Basis of Presentation: The consolidated financial statements include the accounts of Pennichuck Corporation, an investor-owned holding company (the "Company") and its subsidiaries, Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East"), Pittsfield Aqueduct Company, Inc. ("Pittsfield"), Pennichuck Water Service Corporation (the "Service Corporation") and The Southwood Corporation ("Southwood").

Nature of Operations: Pennichuck, Pennichuck East and Pittsfield (collectively referred to as the "Company's utility subsidiaries") are engaged principally in the gathering and distribution of potable water to approximately 27,700 customers in southern and central New Hampshire. The Company's utility subsidiaries are subject to the provisions of Statement of Financial Accounting Standard ("SFAS") 71, *"Accounting for the Effects of Certain Types of Regulations."* The Service Corporation is involved in providing non-regulated, water-related services to over 5,000 customers while Southwood owns, manages and develops real estate.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions. These may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property, Plant and Equipment: Property, plant and equipment, which includes principally the water utility assets of the Company's utility subsidiaries, is recorded at cost plus an allowance for funds used during construction on major additions. The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets including property funded with contributions in aid of construction. The useful lives range from 6 to 90 years and the average composite depreciation rate was 2.55% in 2001 and 2000.

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

Allowance for Funds Used During Construction ("AFUDC"): AFUDC represents a non-cash credit to income with a corresponding charge to plant in service. AFUDC amounts reflect the cost of borrowed funds and, if applicable, equity capital when used to fund major plant construction projects. Such AFUDC amounts were immaterial for 2001, 2000 and 1999.

Revenues: Standard charges for water utility services to customers are recorded as revenue, based upon meter readings and contract service, as services are provided. 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. Revenues recognized under the WaterTight program are amortized over twelve months.

Deferred Charges and Other Assets: Deferred charges include certain regulatory assets and costs of obtaining debt financing. Regulatory assets are amortized over periods being recovered through authorized rates. Debt expenses are amortized over the term of the related bonds and notes. Such utility subsidiaries have recorded certain regulatory assets in cases where the New Hampshire Public Utilities Commission (the "NHPUC") has permitted, or is expected to permit, recovery of these costs over future periods. Deferred charges and other assets consist of the following:

	2001	2000
Regulatory assets	$1,654,175	$ 818,650
Financing costs	577,524	632,615
Other	1,444,855	1,300,088
Total	$3,676,554	$2,751,353

Deferred Land Costs: Included in deferred land costs are Southwood's original basis in its landholdings and developmental costs for its Corporate Park. Deferred land costs are stated at the lower of cost or market.

Investment in Partnerships: During 2001, Southwood was a 50% general partner in a residential development project and had sold a certain parcel of land to the partnership in exchange for a promissory note. Revenues relating to the sale of that parcel are deferred until the lots are ultimately sold to third parties. Real estate transactions are presented using the cost recovery method.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES, continued

Under this method, any deferred gain and related note receivable are offset for financial statement purposes. Southwood's investment in this partnership is recorded using the equity method of accounting. As of December 31, 2001, all of the lots had been sold and the remaining balance on the original note receivable from that partnership was paid in full. At December 31, 2000, the note receivable balance was $172,500, which was offset by the deferred gain of approximately $170,000.

Notes Receivable: During the fourth quarter of 2001, Southwood sold a parcel of land to a local developer in exchange for a note which is secured by a first mortgage interest in the property. The note, totaling $100,000 at an interest rate of 10.5% per year, is due in October 2002 and is included under Current Assets in the accompanying Consolidated Balance Sheet.

Included in Other Assets are two notes receivable from the same local developer totaling $725,750. That amount represents funds loaned by Southwood to the developer for land acquisition and house construction costs for a 5 unit residential development. The term of the notes is eighteen months at an annual interest rate of 10.5% and is secured by a first mortgage interest in the land and buildings.

Income Taxes: The provision for federal and state income taxes is based on income reported in the 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. Investment credits previously realized for income tax purposes are amortized for financial statement purposes over the life of the property, giving rise to the credit.

Contributions in Aid of Construction ("CIAC"): Under construction contracts with real estate developers and others, the Company's regulated subsidiaries receive non-refundable advances for the costs of new main installation. The CIAC account and related plant asset are amortized over the life of the property. The regulated subsidiaries also credit to 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.

Other Comprehensive Income (OCI): The Company follows SFAS No. 130, *"Reporting Comprehensive Income."* This Statement requires presentation of the components of other comprehensive earnings. The components of other comprehensive income, as shown in the consolidated statements of stockholders' equity as of December 31, 2001, are unrealized losses on the Company's derivatives of $308,216. The change in unrealized loss for the year ended December 31, 2001 was $156,216.

Earnings Per Share: The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share for the twelve months ended December 31, 2001, 2000 and 1999.

	Year Ended 2001	2000	1999
Basic earnings per share	$1.52	$1.56	$1.12
Dilutive effect of unexercised stock options	(.02)	(.01)	–
Diluted earnings per share	$1.50	$1.55	$1.12
Numerator:			
Basic net income	$3,611,704	$3,682,661	$2,615,665
Diluted net income	$3,611,704	$3,682,661	$2,615,665
Denominator:			
Basic weighted average shares outstanding	2,382,389	2,360,767	2,327,597
Dilutive effect of unexercised stock options	17,699	8,505	13,282
Diluted weighted average shares outstanding	2,400,088	2,369,272	2,340,879

NOTE B - INCOME TAXES

The components of the federal and state income tax provision at December 31 are as follows:

	2001	2000	1999
Federal	$2,113,104	$2,309,552	$1,320,519
State	577,352	593,477	337,729
Amortization of investment tax credits	(33,036)	(33,036)	(33,036)
	$2,657,420	$2,869,993	$1,625,212
Currently payable	$1,836,144	$2,220,703	$ 816,062
Deferred	821,276	649,290	809,150
	$2,657,420	$2,869,993	$1,625,212

The following is a reconciliation between the statutory federal income tax rate and the effective income tax rate for 2001, 2000 and 1999:

	2001	2000	1999
Statutory federal rate	34.0%	34.0%	34.0%
State tax rate, net of federal benefit	5.6	5.3	5.3
Amortization of investment tax credits	(.5)	(.6)	(.8)
Effective tax rate	39.1%	38.7%	38.5%

The Company made income tax payments of $1,214,973, $1,349,149 and $858,892 in 2001, 2000 and 1999, respectively.

The Company did not have any alternative minimum tax credits available at December 31, 2001 and 2000 compared to $65,522 available at the end of 1999.

The Company has a regulatory liability related to income taxes of $1,169,658, $1,179,689 and $1,194,870 at December 31, 2001, 2000 and 1999, 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. The liability is being amortized consistent with the Company's rate-making treatment.

The temporary items that give rise to the net deferred tax liability at December 31, 2001 and 2000 are as follows:

Liabilities:	2001	2000
Property related	$7,653,446	$6,887,537
Other	720,438	585,749
	8,373,884	7,473,286
Assets:		
Investment tax credits	662,961	672,992
Regulatory liability	506,697	506,697
Taxes on contributions in aid of construction	682,962	766,187
Other	355,147	206,872
	2,207,767	2,152,748
Net Deferred Tax Liabilities	$6,166,117	$5,320,538

NOTE C - DEBT

Long-term debt at December 31 consists of the following:

	2001	2000
Unsecured notes payable to various insurance companies:		
9.10%, due April 1, 2005	$3,500,000	$3,500,000
7.40%, due March 1, 2021	8,000,000	8,000,000
Unsecured Industrial Development Authority Revenue Bond 1988 Series, 7.50%, due July 1, 2018	1,105,000	1,170,000
Unsecured Business Finance Authority 1994 Revenue Bond (Series A), 6.35%, due December 1, 2019	2,750,000	2,880,000
Unsecured Business Finance Authority 1994 Revenue Bond (Series B), 6.45%, due December 1, 2016	1,550,000	1,670,000
Unsecured Business Finance Authority 1997 Revenue Bond, 6.30%, due May 1, 2022	4,000,000	4,000,000
Secured notes payable to bank, floating rate, due April 8, 2005	6,000,000	6,000,000
Unsecured New Hampshire State Revolving Fund Loan, 3.8%, due November 1, 2020	445,000	12,860
Capitalized lease obligation	---	4,155
Secured loan, 5%, due October 1, 2005	70,005	---
	27,420,005	27,237,015
Less current portion	348,207	319,155
	$27,071,798	$26,917,860

The 1994 Series A and B Bonds are not subject to optional redemption until 2004 at which time they may be redeemed in whole or in part at a premium not to exceed 2% and may be redeemed at par on or after December 1, 2008. The notes and bonds payable require periodic interest payments (either monthly or semi-annually) which are based on the outstanding principal balances. The aggregate principal payment requirements subsequent to December 31, 2001 are as follows:

2002	$ 348,207
2003	354,223
2004	355,091
2005	9,855,922
2006	337,250
2007 and thereafter	16,169,312

The note and bond agreements require, among other things, the maintenance of certain financial ratios and restrict the payment or declaration of dividends by Pennichuck. Under Pennichuck's most restrictive covenant, cumulative common dividend payments or declarations by Pennichuck subsequent to December 31, 1989 are limited to cumulative net income earned after that date plus $1,000,000. At December 31, 2001, approximately $3,863,000 of Pennichuck's retained earnings was unrestricted for payment or declaration of common dividends.

During 2001, 2000 and 1999, the Company paid interest of $1,972,283, $1,905,473 and $1,967,318 respectively.

The Company has available a $2,500,000 unsecured, revolving credit facility with a bank and during 2001 and 2000, there were no outstanding borrowings under this facility.

The Company's wholly-owned real estate subsidiary, The Southwood Corporation, has a 50% ownership interest in three limited liability companies (LLC's). The LLC's, which are not included in the accompanying Consolidated Balance Sheets, own certain commercial office buildings on which there are outstanding mortgage notes totaling $9.6 million. Southwood, along with other members of the LLC's, has issued a guarantee on those mortgages on which it is jointly and severally liable.

NOTE C - DEBT, continued

The Company has entered into two interest rate exchange agreements to mitigate interest rate risks associated with its floating-rate loans. The agreements provide for the exchange of fixed rate interest payment obligations for floating rate interest payment obligations on notional amounts of principal. The net amounts paid and received under the agreements are reflected as interest expense. The two interest rate exchange agreements have a fixed rate of 6.50%. The notional amount of the debt is $6,000,000 at December 31, 2001 and 2000.

SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities,"* as amended by SFAS No. 137, *"Deferral of the Effective Date of SFAS No. 133"* and SFAS No. 138, *"An amendment to SFAS No. 133"*, establishes certain accounting and reporting standards requiring every derivative instrument to be recorded in the Company's balance sheet as either an asset or liability measured at its fair value. These statements require that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting treatment for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that the Company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133, as amended, is effective for fiscal years beginning after June 15, 2000. The Company completed its review and implementation of SFAS No. 133, effective January 1, 2001. The Company has taken an inventory of its contracts and determined that the interest rate swap contracts mentioned above represent derivatives under SFAS No. 133. These contracts qualify for hedge accounting under SFAS No. 133. At December 31, 2001, the Company has recorded a liability of $308,216 associated with these two interest rate swap agreements while the offset amount was reflected in Accumulated Other Comprehensive Income.

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of certain financial instruments included in the accompanying Consolidated Balance Sheet as of December 31, 2001 is as follows:

	Carrying Value	Fair Value
Long-term debt	$27,420,005	$29,597,000
Interest rate swaps	$-0-	$ (308,216)

There are no quoted market prices for the Company's various long-term debt issues, and thus, their fair values have been determined based on quoted market prices for securities similar in nature and in remaining maturities. 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 the Company's interest rate swaps represents the estimated unrealized loss to terminate these agreements based upon current interest rates.

The carrying values of the Company's cash, restricted cash, and short-term notes receivable approximate their fair values because of the short maturity dates of those financial instruments. There is no market information available for the Company's long-term notes receivable; however, management believes their carrying value reflects market value.

NOTE E - BENEFIT PLANS

PENSION PLAN

The Company has a defined benefit pension plan covering substantially all full-time employees. The benefits are formula-based, giving consideration to both past and future service. The Company's funding policy is to contribute annually up to the maximum amount deductible for federal tax purposes. 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.

December 31:	2001	2000
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $3,044,730 in 2001 and $2,737,758 in 2000	$3,108,648	$2,772,035

NOTE E - BENEFIT PLANS, continued

Projected benefit obligation for service rendered to date	(3,650,659)	(3,299,694)
Plan assets at a fair value (insurance contracts)	3,234,454	3,294,074
Plan assets less than projected benefit obligation	(416,205)	(5,620)
Prior service costs	5,166	5,951
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	884,927	454,327
Unrecognized net transition asset	(69,451)	(83,258)
Prepaid pension cost included in deferred charges and other assets	$404,437	$371,400

Net pension cost for 2001, 2000 and 1999 includes the following components:	2001	2000	1999
Service cost - benefits earned during the period	$205,929	$189,730	$186,006
Interest cost on projected benefit obligation	243,155	219,624	201,832
Expected return on plan assets	(300,727)	(277,061)	(255,738)
Amortization of (gains) and deferrals	(6,711)	(11,374)	(1,536)
Net periodic pension cost	$141,646	$120,919	$130,564

For the years ended December 31, 2001, 2000 and 1999, the actuarial present value of the projected benefit obligation was determined using a discount rate of 7.5% and an assumed rate of increase in future compensation levels of 5%. The expected long-term rate of return on plan assets was 9% in 2001, 2000 and 1999.

SALARY DEFERRAL PLAN

In addition, the Company has a salary deferral plan covering substantially all full-time employees. Under this plan, the Company matches 100% of the first 3% of the employee's salary contributed to the plan. The matching employer's contributions were $109,325, $101,644 and $91,469, respectively, for 2001, 2000 and 1999.

OTHER POST-RETIREMENT BENEFITS

The Company provides post-retirement medical benefits to current and retired employees, which are payable upon reaching normal retirement date. Future benefits payable to current employees are capped based on the actual percentage of wage and salary increases earned from the plan inception date to normal retirement date. The accumulated benefit obligation, unrecognized transition obligation and net periodic post-retirement benefit cost for the years ended December 31, 2001 and 2000 are as follows:

Accumulated post-retirement benefit obligation:	2001	2000
Total current active employees and retirees	$(808,273)	$(653,703)
Plan assets at fair value	203,802	145,052
Funded status (underfunded)	(604,471)	(508,651)
Unrecognized net loss (gain)	13,100	(109,844)
Unrecognized prior service cost	81,100	95,600
Unrecognized transition obligation	29,900	60,800
Accrued (prepaid) post-retirement benefit cost, net	$(480,371)	$(462,095)
Service cost	$29,993	$28,538
Interest cost	54,777	40,583
Amortization of prior service cost	14,500	14,500
Amortization of transition obligation	30,900	30,900
Amortization of unrecognized (gains)	(11,413)	(2,826)
	$118,757	$111,695

NOTE E - BENEFIT PLANS, continued

The Company is presently allowed to recover a portion of the post-retirement benefits relating to active employees and retirees in its rates. To calculate the estimated accumulated benefit obligation, the Company has assumed a discount rate of 7.5% in 2001 and 7.75% in 2000, and a maximum medical care cost trend rate of 5% in 2001 and 2000, which is the projected annual increase in future compensation levels. A 1% increase in the assumed health care cost trend rate would not have had a material effect on the post-retirement benefit cost or the accumulated post-retirement benefit obligation in 2001.

NOTE F - STOCK BASED COMPENSATION PLANS

The Company has a stock option plan for officers and key employees which provides for incentive options. The Company accounts for the plan under APB Opinion No. 25, under which no compensation cost has been recognized in the Consolidated Statements of Income. On a pro forma basis, the Company's net income and earnings per share would have been reduced to the following amounts had compensation cost for the plan been determined consistent with SFAS No. 123, *"Accounting for Stock Based Compensation."*

Net income:	2001	2000	1999
As reported	$3,611,704	$3,682,661	$2,615,665
Pro forma	$3,468,332	$3,461,126	$2,586,364
Basic earnings per share:			
As reported	$1.52	$1.56	$1.12
Pro forma	$1.46	$1.47	$1.11
Diluted earnings per share:			
As reported	$1.50	$1.55	$1.12
Pro forma	$1.45	$1.46	$1.10

At December 31, 2001, all options which had been granted were exercisable and 195,947 shares were available for future grants. The following table shows the option plan activity for 1999, 2000 and 2001:

	Options Outstanding	Price Per Share
Balance at December 31, 1998	59,527	$7.50-$9.50
Granted	13,200	$15.75
Canceled	(367)	$7.50
Exercised	(45,645)	$7.50-$15.75
Balance at December 31, 1999	26,715	$7.50-$15.75
Granted	29,667	$23.25
Canceled	—	—
Exercised	(6,148)	$7.50-$15.75
Balance at December 31, 2000	50,234	$8.12-$23.25
Granted	29,704	$20.39
Canceled	(1,667)	$20.39-$23.25
Exercised	(8,468)	$8.12-$15.75
Balance at December 31, 2001	69,803	$8.12-$23.25

Of the 69,803 options outstanding at December 31, 2001, 802 have an exercise price of $8.63 and a remaining contractual life of 4 years; 2,052 shares have an exercise price of $8.12 and a remaining contractual life of 5 years; 3,352 shares have an exercise price of $9.50 and a remaining life of 6 years; 5,894 shares have an exercise price of $15.75 and a remaining life of 7 years; 28,666 shares have an exercise price of $23.25 and a remaining life of 8 years; and 29,037 shares have an exercise price of $20.39 and a remaining life of 9 years. The fair value of each option grant is estimated on the date of grant using the Black-Sholes option pricing model with the following assumptions used for grants in 2001, 2000 and 1999, respectively: risk-free interest rates of 5.08%, 6.59% and 4.9%; expected dividend yields of 4.7%, 5.3% and 5.3%; expected lives of 5 years; and expected volatility of 34%, 53% and 35%.

In 2001, the Company amended its 1995 and 2000 Stock Option Plans to allow for grant of non-qualified stock options in addition to incentive stock options.

NOTE G - SHAREHOLDER RIGHTS PLAN

On April 20, 2000, the Company's Board of Directors adopted a Rights Agreement and declared a dividend of one preferred share purchase right ("Right") for each outstanding share of common stock, $1.00 par value. Each Right entitles the shareholder to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock of the Company at an exercise price of $85.00 per share, subject to adjustment. The Rights become exercisable in the event that a person or group acquires, or commences a tender or exchange offer to acquire, more than 10% of the Company's outstanding common stock. In that event, each Right will entitle the holder, other than the acquiring party, to purchase a number of common shares of the Company having a market value equal to two times the Right's exercise price. If the Company is acquired in a merger or other business combination at any time after the Rights become exercisable, the Rights will entitle the holder to purchase a certain number of shares of common stock of the acquiring company having a market value equal to two times the Right's exercise price. The Rights are redeemable by the Company at a redemption price of $.01 per Right at any time before the Rights become exercisable. The Rights will expire on April 19, 2010, unless previously redeemed.

NOTE H – SUBSEQUENT EVENTS

In January 2002, Southwood sold its remaining 40 acres in Southwood Corporate Park to a regional developer for approximately $2.7 million in cash. That sale, less selling and allocable infrastructure costs, is expected to result in approximately $1.04 million in pretax earnings for Southwood in the first quarter of 2002.

NOTE I - BUSINESS SEGMENT INFORMATION

Pennichuck Corporation's operating activities are grouped into three primary business segments as follows:

Water utility - Involved in the collection, treatment and distribution of potable water for domestic, industrial, commercial and fire protection service in the City of Nashua and certain surrounding communities in southern and central New Hampshire.

Real estate - Involved in the ownership, development, management and sale of industrial and residential property in Nashua and Merrimack, New Hampshire.

Contract operations and other - Includes the contract operations and laboratory testing activities of the Service Corporation and sundry activities of the Company.

The tables below present information about Pennichuck Corporation's three primary business segments for the years ended December 31, 2001, 2000 and 1999.

	2001	2000	1999
Operating revenues:			
Water utility	$17,411,760	$15,963,540	$16,331,633
Real estate	4,156,556	6,989,006	860,103
Contract operations & other	1,186,022	718,930	617,522
Total operating revenues	$22,754,338	$23,671,476	$17,809,258
Operating income:			
Water utility	$5,002,983	$4,349,211	$5,326,362
Real estate	3,244,462	4,632,404	591,887
Contract operations & other	304,697	234,305	157,655
Total operating income	$8,552,142	$9,215,920	$6,075,904
Capital additions:			
Water utility	$8,210,756	$7,735,483	$6,717,877
Real estate	–	–	–
Contract operations & other	400	4,833	17,308
Total capital additions	$8,211,156	$7,740,316	$6,735,185

NOTE I - BUSINESS SEGMENT INFORMATION, continued

Identifiable assets:			
Water utility	$79,668,690	$73,547,121	$68,337,550
Real estate	3,524,382	4,053,620	4,243,177
Contract operations & other	4,647,469	5,279,265	3,000,117
Total identifiable assets	$87,840,541	$82,880,006	$75,580,844
Depreciation & amortization expense:			
Water utility	$2,590,524	$2,225,329	$2,068,180
Real estate	412,742	912,221	--
Contract operations & other	43,696	34,216	73,587
Total depreciation & amortization expense	$3,046,962	$3,171,766	$2,141,767

The operating revenues within each business segment are sales to unaffiliated customers. Operating income is defined as segment revenues less operating expenses, including allocable Parent Company expenses attributable to each business segment as shown below.

	2001	2000	1999
Allocated parent expenses:			
Water utility	$522,180	$522,231	$477,156
Real estate	58,581	5,615	5,186
Contract operation	25,960	33,692	36,305
Total allocated parent expenses	$606,721	$561,538	$518,647

Within the water utility business segment, one customer accounted for over 10% of total operating revenues. During 2001, 2000 and 1999, the water utility recorded $1,809,000, $1,755,000 and $1,784,000, respectively, in water revenues which were derived from fire protection and other billings to the City of Nashua.

NOTE J - QUARTERLY FINANCIAL DATA (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands of dollars, except per share amounts)			
2001				
Operating Revenues	$4,410	$5,573	$5,654	$7,117
Operating Income	1,129	2,074	2,122	3,227
Net Income	415	966	1,008	1,223
Basic Earnings Per Share	$ .18	$ .41	$ .42	$ .51
2000				
Operating Revenues	$4,135	$4,453	$5,945	$9,138
Operating Income	1,197	1,383	2,516	4,120
Net Income	460	596	1,150	1,477
Basic Earnings Per Share	$ .19	$ .26	$ .49	$ .62
1999				
Operating Revenues	$3,892	$4,710	$5,131	$4,076
Operating Income	1,177	1,722	1,897	1,280
Net Income	456	777	870	513
Basic Earnings Per Share	$ .19	$ .34	$ .37	$ .22

Market & Dividend Information

The Company's common stock is currently traded on the Nasdaq National Market System ("NMS") under the symbol "PNNW". On December 31, 2001, there were approximately 774 holders of record of the 2,387,634 shares of the Company's common stock outstanding.

The Company offers a Dividend Reinvestment and Common Stock Purchase program which is available to our shareholders. Under this program, our shareholders may reinvest all or a portion of their common dividends into shares of common stock at prevailing market prices. We also accept optional cash payments to purchase additional shares at 100% of the prevailing market prices.

The following table sets forth the comparative market prices per share of the Company's common stock based on the high and low closing sales prices as reported on the Nasdaq NMS during the applicable periods and the dividends declared by the Company during those periods. All stock information has been adjusted to reflect the four-for-three stock split effected December 3, 2001.

Period	High	Low	Dividends Declared
2001			
Fourth Quarter	$26.81	$19.19	$.19
Third Quarter	24.17	20.85	.19
Second Quarter	25.61	19.02	.19
First Quarter	21.76	18.51	.19
2000			
Fourth Quarter	$21.38	$17.81	$.19
Third Quarter	21.00	18.00	.18
Second Quarter	22.69	16.50	.18
First Quarter	24.75	15.66	.18
1999			
Fourth Quarter	$25.50	$18.00	$.18
Third Quarter	21.75	16.50	.17
Second Quarter	16.97	14.48	.17
First Quarter	16.31	14.72	.17

Shareholder Information

The annual report on Form 10K of Pennichuck Corporation as filed with the Securities and Exchange Commission will be made available upon request to: Shareholder Relations: Pennichuck Corporation, 4 Water Street, PO Box 448, Nashua, NH 03061-0448, Tel: 603/882-5191.

Stock Transfer Agent and Registrar: American Stock Transfer & Trust Company, Shareholder Relations, 59 Maiden Lane, Plaza Level, New York, NY 10038, 800/937-5449, www.amstock.com.

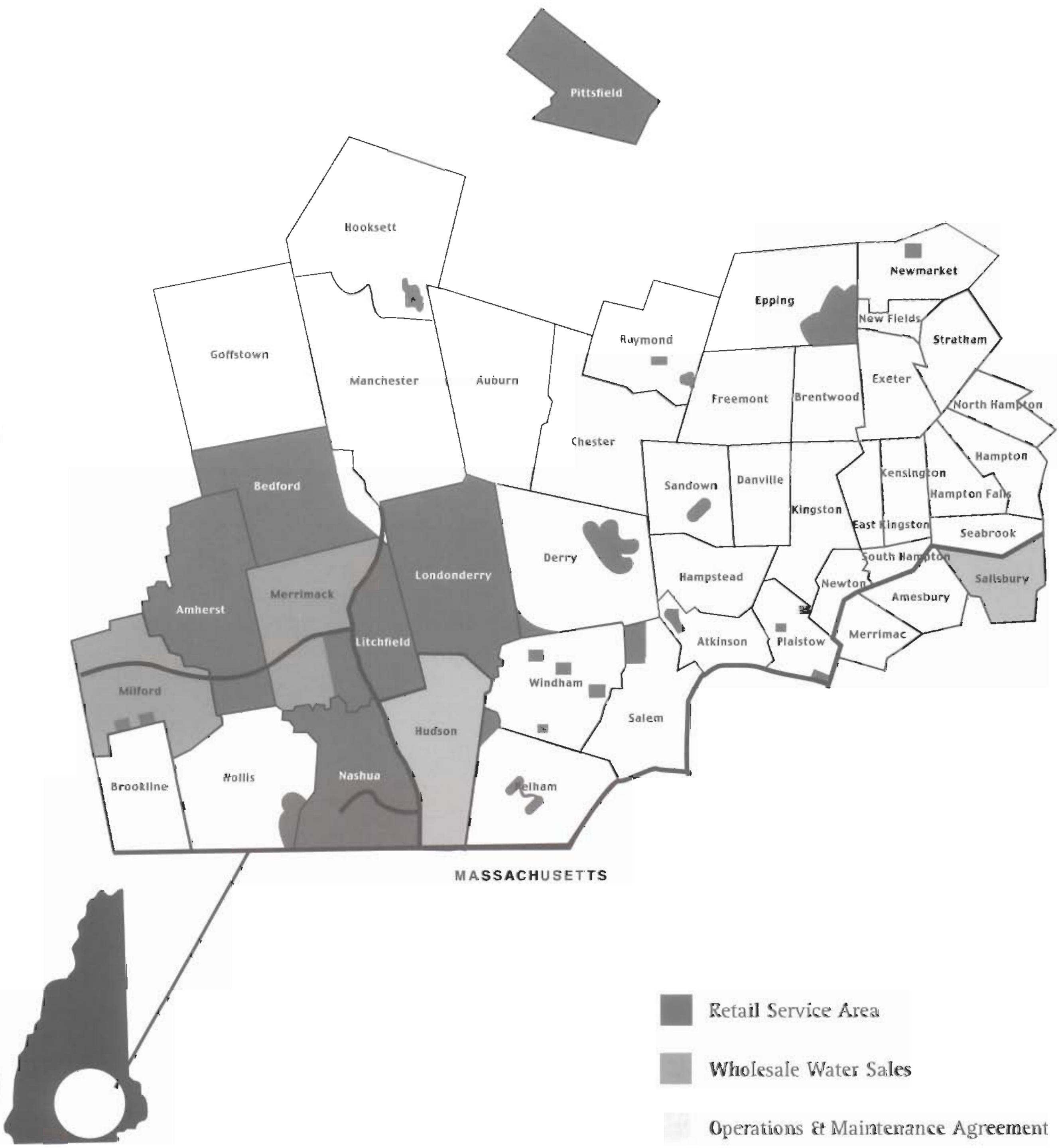
Dividend Reinvestment and Common Stock Purchase Plan: Pennichuck Corporation has a Dividend Reinvestment and Common Stock Purchase Plan which is open to all holders of Pennichuck's common shares and to all of Pennichuck's New Hampshire residential customers. Participants in the Plan receive their dividends in the form of Pennichuck common shares and may also, within certain limits, make additional cash purchases under the Plan. For a copy of the Plan Prospectus and an enrollment form, please call Shareholder Relations.

Five-Year Selected Data

	2001	2000	1999	1998	1997
Operating revenues (in $000's)	$22,754	$23,671	$17,809	$17,395	$12,056
Net income (in $000's)	$3,612	$3,683	$2,616	$2,106	$1,207
Earnings per share - basic	$1.52	$1.56	$1.12	$1.21	$0.76
Cash dividends declared per share of common stock	$0.76	$0.73	$0.69	$0.59	$0.51
Total assets (in $000's)	$87,841	$82,880	$75,581	$70,838	$57,240
Long-term debt (in $000's)	$27,420	$27,237	$28,266	$28,185	$26,678
Weighted average shares outstanding - basic	2,382,389	2,360,767	2,327,597	1,741,715	1,600,383
Book value per share	$12.91	$12.17	$11.27	$10.88	$9.05
Utility plan additions (in $000's)	$8,211	$7,735	$6,718	$11,209	$6,126
Water delivered (million gallons per day)	16.18	15.86	15.12	14.44	12.74
Mains (miles)	521	495	481	470	364
Services:					
Core & Communities	22,808	22,380	22,213	21,422	21,037
Pittsfield Aqueduct	639	628	625	623	615
Pennichuck East	4,277	4,139	3,804	3,766	-
Meters	28,646	27,243	26,642	25,984	21,759
Hydrants	2,664	2,634	2,583	2,540	2,194
Rainfall	30.64	57.62	42.87	47.36	47.36
Employees	80	72	71	66	57

Prior year numbers have been restated to reflect the merger of Pittsfield Aqueduct Company, Inc. in 1998, the three-for-two stock split in September 1998, and the four-for-three stock split in December 2001. 1998 numbers reflect the asset acquisition of Pennichuck East Utility, Inc.

Map of Service Territory



Pennichuck Corporation

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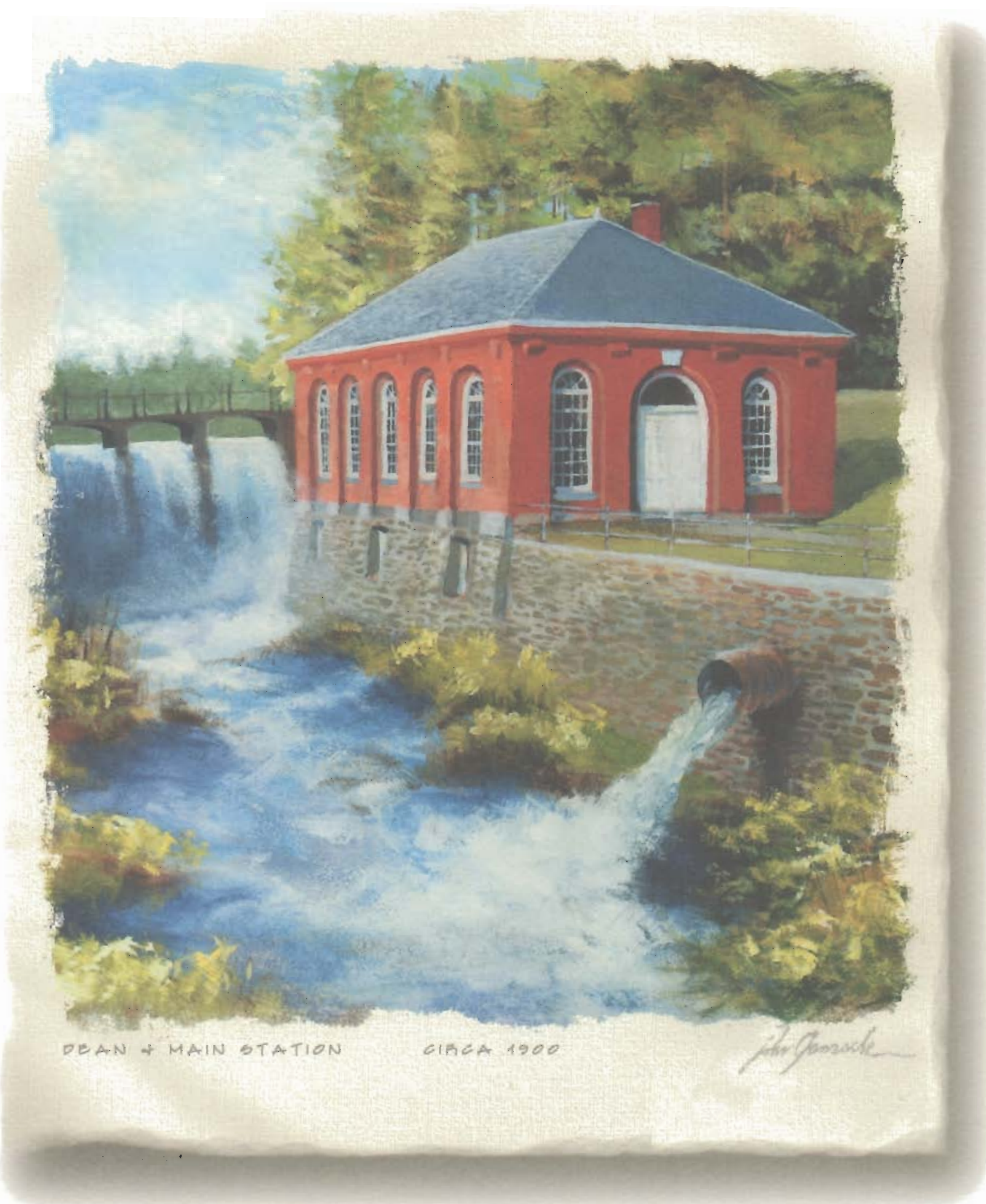


PENNICHUCK CORPORATION 2000 ANNUAL REPORT

LETTER TO SHAREHOLDERS

Dear Shareholders:

At midnight on December 31, 1999, we all waited with great anticipation for the Y2K rollover and the beginning of the new millennium. The months of preparation proved successful, and when the rollover occurred we were able to provide our customers with the same quality of service without interruption or inconvenience. Overall Y2K proved to be a nonevent. The rest of the year continued to be equally successful, in spite of the fact that our water sales fell below projections due to the cool, damp summer. Fortunately, the booming regional economy helped The Southwood Corporation, our real estate subsidiary, exceed expectations and more than make up for any shortfall in water revenues.

Total consolidated revenue for 2000 was $23.7 million compared to $17.8 million in 1999, with consolidated earnings of $2.08 per share versus $1.50 last year. It should be noted, however, that the 2000 earnings reflect the significant and positive impact of a major land sale to a multinational company. Gross revenues for all water utilities combined were $15,963,000 which represents a 2.25% decline from 1999. This was a complete contrast to the hot dry summer of 1999, which drove demand for water to record levels.

The year 2000 was the beginning of a new millennium. I also believe it will mark the beginning of a new era for your Company. We are entering a time of ever-increasing challenges. The rising cost of maintaining aging infrastructure, more stringent regulatory standards and securing abundant water supplies will have an effect on our entire industry. However, as is often the case, these same challenges also bring with them great opportunities. And while it won't be an easy task, I believe your Company has the vision, the talent, and the dedication necessary to turn these challenges into a period of great reward.

Since its last rate filing in 1997, Pennichuck has invested over $15.7 million into its water utility operations. As typically happens with public utilities, we experience a cyclical pattern where a period of heavy investment is followed by a period of declining returns. We experienced just such a decline in 2000, and as a result, our utility earnings fell below the allowed rate of return set by the New Hampshire Public Utilities Commission (NHPUC). In 2001, we intend to file for a rate increase on behalf of Pennichuck Water Works, Inc., our major water utility. We expect that we will receive a positive outcome before year-end. And we will continue to aggressively pursue rate relief through timely filings of rate cases to maximize future earnings for all our water utilities.

Of the total $3.5 million we invested in capital improvements during 2000, the majority was devoted to three main projects. Working in conjunction with the City of Nashua's sewer separation project, Pennichuck is upgrading some of its oldest pipelines. Nashua has allocated $110 million to fund its project over the next 10 years. Working with the City saves Pennichuck from bearing the full expense of rebuilding the City's streets. Upgrading our infrastructure will constitute a significant investment for Pennichuck throughout the decade. In addition, we completed two major interconnections that will enable Pennichuck to buy water from the City of Manchester, New Hampshire. One interconnection will service our Bedford franchise area, and the other Londonderry. These interconnections allow us to provide a more economical water supply, provide sufficient capacity to enable us to grow our customer base, and open up new areas for future development.

In 2000, we experienced significant customer growth in all our utilities, with the greatest expansion coming in Pennichuck East Utility. During the year, we added a total of 558 new customers. We are currently working with developers that have, or are in the process of obtaining, approval for the construction of more than 2,000 residential units within our franchise areas. We expect customer growth to continue at its current pace well into 2001.

Moving forward, your Company will increase its focus on expanding our non-regulated water operations by providing contract operations for community water systems and for non-transient non-community water systems (NTNCWS). These

NTNCWS typically include schools, daycare centers and apartment buildings with private wells. In 2000, Pennichuck Water Service Company (PWSC) secured 22 new contracts to operate and manage water systems. There are over 600 NTNCWS systems in New Hampshire, and many more in nearby Massachusetts. Now, with the recent appointment of a full-time manager to direct this operation, we expect this segment of our business to grow significantly in the years to come.

New and pending legislation continues to present us with new challenges. For example, the introduction of MTBE as a gasoline additive, and its attendant contamination of water supplies, has resulted in tighter regulations being imposed by the State of New Hampshire. At the federal level, we are facing revised regulations governing maximum contaminant levels for radon and arsenic, naturally occurring contaminants that are present in many groundwater sources in New Hampshire. Pennichuck plays an active role in monitoring legislation and rule making in order to assure an appropriate balance between growing environmental concerns and maintaining the ability to operate efficiently. The in-stream flow rule currently being advanced by the State of New Hampshire Department of Environmental Services (NHDES) is a case in point. As originally proposed, the rule would dramatically reduce the volume of water we would be able to withdraw from the Merrimack River during certain times of the year. Your Company has worked with the committee of the NHDES to revise these rules, and soon, we expect to see a rule that addresses environmental concerns and does not put service to our customers in jeopardy.

Southwood Corporation, posted a banner year in 2000. Gross revenues were $7.0 million, as compared to $860,000 in 1999. The robust economy in the area enabled us to sell 42 homes in our Heron Cove residential development, as well as all seven homes in our Ayers Crossing development. We sold two lots in Westwood Park, a joint venture industrial development. This included a 55+ acre parcel that was sold to Corning Lasertron, Inc. This multinational company will construct a 390,000 sq. ft. facility and eventually employ over 800 people in its first phase of development, boosting the economy of the City of Nashua, and the local region as well.

In addition, we completed the construction and occupancy of a second office building in our Heron Cove Office Park (HECOP II) in Merrimack. This 42,000 sq. ft. office/R&D building is jointly owned by The Southwood Corporation and J. P. Stabile. A third, fully pre-leased building, HECOP III, is currently under construction with occupancy projected for April 2001. We foresee another active year ahead of us.

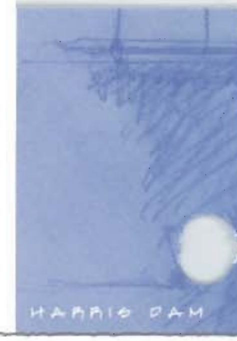
In the fourth quarter of the year, the Board of Directors increased the dividend on common shares to an annualized rate of $1.00 per share. Also during the year, the Company added two market makers for its common shares, bringing our total to five. Hopefully, this, combined with a solid performance, will have a positive impact on the value of our common stock as the year proceeds.

There is no doubt that the year 2000 was a very successful year for your company. We achieved many of the goals that we set for the company, seized new opportunities as they emerged, and positioned ourselves well for the future. I look forward to a very exciting period ahead. I wish to express my appreciation to our employees and directors for their commitment and hard work and as always, I recognize our shareholders for their loyalty and support.

Sincerely,

Maurice L. Arel

Maurice L. Arel
President and Chief Executive Officer



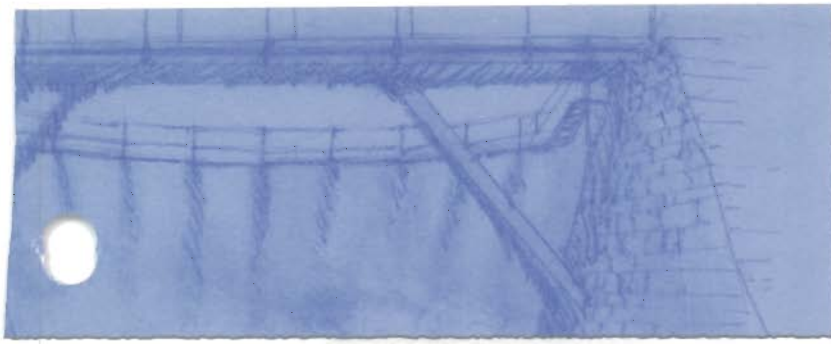
REVIEW OF OPERATIONS

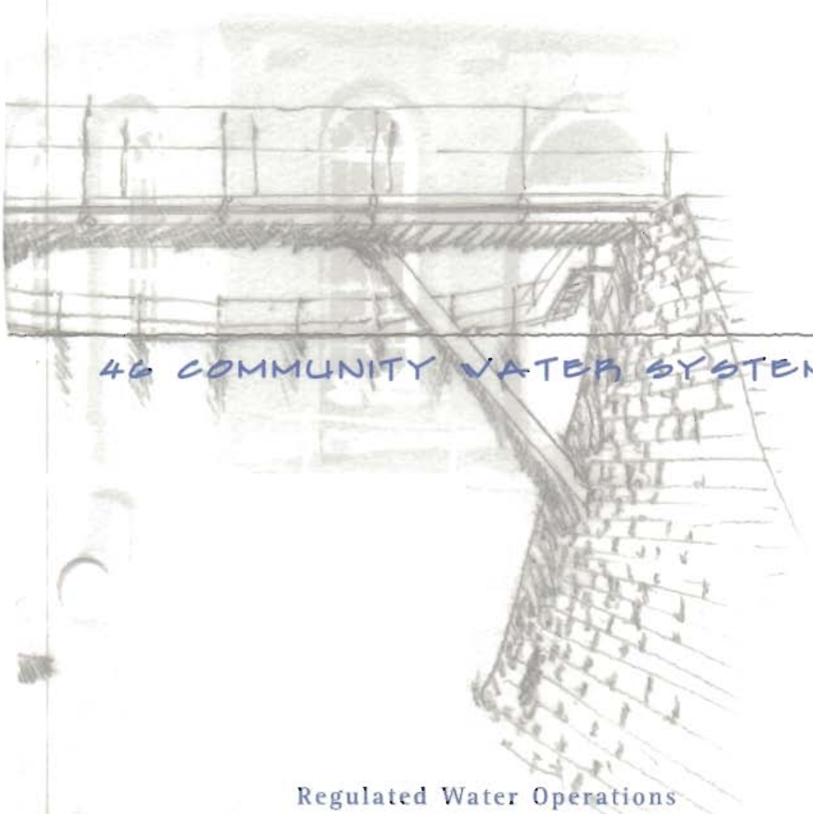
PENNICHUCK MANAGES

After the extremely dry summer of 1999, the weather went to the opposite extreme in 2000, bringing with it one of the dampest summers in recent memory. Similarly, while 1999 presented huge operational challenges, to provide water when our supplies were stretched, last year, our primary challenge was financial, managing operations with lower water revenues.

Approximately 15 years ago, when the Company first entered the real estate industry, we were looking for profitable ways to diversify and provide a hedge in years when we experience a downturn in water revenues. 2000 was the first year that we saw this long-term strategic plan truly come to fruition. You'll note that without the single large real estate sale, your Company's consolidated revenues would still have been about the same as the previous year. In addition, these performance figures were achieved during a period of significant capital investment, which, as a result, caused the Company's rate of return to temporarily fall below the allowable return set by the New Hampshire Public Utilities Commission (NHPUC). Consequently, the proposed rate case filing planned for 2001, coupled with our aggressive expansion into contract operations, bode very well for increasing revenue during the coming year and beyond.

Despite having a damper than normal season, your Company continued to grow, and we posted a very good year in many areas of our utility enterprise. Residential real estate is booming in the region, and although the core system in Nashua is reaching "build-out" in terms of undeveloped land available, the systems we've acquired in surrounding towns have continued to grow at a fast rate resulting in 558 total new service connections in 2000. This increased number of customers helped lessen the impact of lower consumption per capita overall.



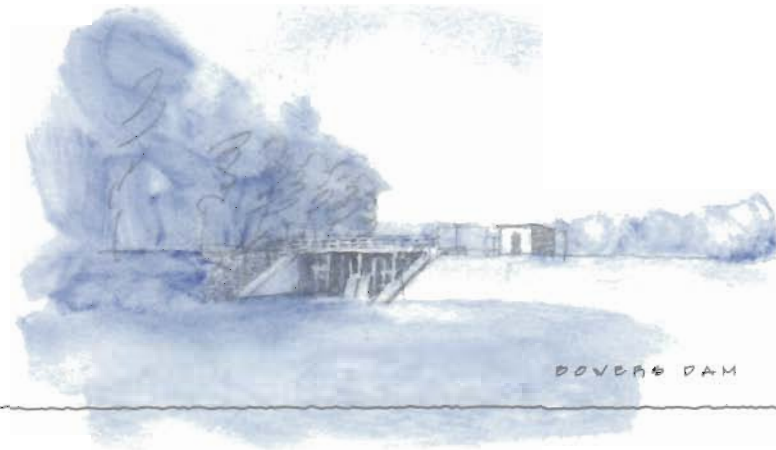


46 COMMUNITY WATER SYSTEMS...

Regulated Water Operations

Pennichuck is constantly making improvements to ensure reliable delivery of high quality water for its customers, investing nearly $3.5 million in 2000 alone. One of the Company's larger projects is happening in conjunction with the City of Nashua's 10-year program to separate the storm water system from the city sewer system by laying independent pipelines for each. At the same time, Pennichuck is upgrading some of the oldest pipelines in its Nashua core system. During the latest phase of the project, we replaced 7,500 feet of unlined cast-iron water main with cement-lined ductile iron pipe. By working in concert with the City, Pennichuck avoids significant costs for re-paving the streets while improving service to our customers.

In 2000, Pennichuck completed two new interconnections with Manchester Water Works. The first interconnection provides a more economical supply of water for customers in Londonderry. We installed 12,000 feet of 16-inch water line, constructed a new pumping station and made various system upgrades, and as a result, these customers now receive water purchased directly from Manchester Water Works, giving Londonderry a second water supply and increased fire protection with reduced operating costs. The second interconnection resolved water shortages in our Powder Hill system in Bedford, New Hampshire. The installation of a new 12-inch water line vastly increased water capacity



treatment plant in Nashua. SCADA means there's always someone monitoring these systems 24 hours a day, seven days a week, 365 days per year. A computer continually evaluates performance data, and if anything is abnormal, SCADA sounds an alarm to alert the operator on duty. As a result, we can identify potential problems much earlier, helping us avert system outages and improving reliability. We also updated some of our older SCADA systems, such as the one in Hudson, New Hampshire, by installing better instrumentation that generates more comprehensive data. In Pittsfield, New Hampshire, we are successfully using a "PC-Anywhere" program that allows us to monitor the operations of this water system via a phone line – anytime and from anywhere online.

As always, your management team is seeking out new expansion opportunities within the regulated water industry. In 2000, we acquired a small community water system with 28 customers in Hooksett, New Hampshire. This acquisition came at the request of the NHPUC who asked us to consider taking over this system as it had a number of operating deficiencies. Pennichuck was readily able to solve some of the difficulties, including the inadequate supply. We are currently in the process of evaluating several other water systems for potential acquisition, some at the prompting of state regulatory agencies and some that we've discovered ourselves. And at year-end, Pennichuck had filed with the NHPUC to expand franchise operations in the town of Milford, New Hampshire, by encompassing a new 180-home subdivision in a remote section of the town. Pennichuck also signed agreements to acquire two new community water systems in Windham, NH with a total customer base of 218.

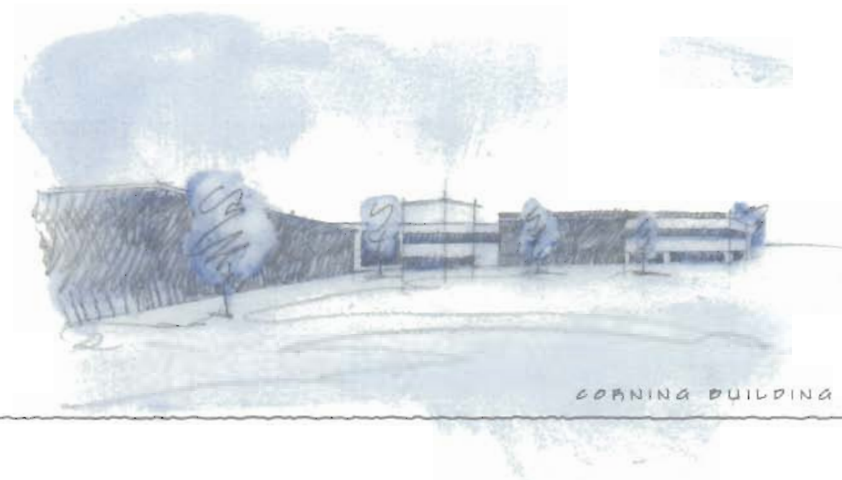
As you may recall, in 1999 Pennichuck and the town of Pittsfield succeeded in gaining a two-year federal grant for $544,000. The purpose of the funding was to replace the 100-year-old pipes in Pittsfield's aging water system, which were causing frequent main breaks. As part of this project, Pennichuck is also extending the municipal water supply to include an industrial park that was previously served by a well, thereby helping Pittsfield's economic development and expansion efforts. In 2000, we completed approximately 60% of the rehabilitation work, replacing over 2,000 feet of pipe. The rest of the project is scheduled to be completed in the spring of 2001. Performing this type of rehabilitation work using federal grant money benefits our customers since it allows us to upgrade systems and improve water quality without having to increase water rates. It's also beneficial to you, our shareholders, because improving the reliability of a water system dramatically reduces ongoing maintenance costs. We are intending to use a similar funding mechanism to pay for rebuilding the distribution system and establishing new wells at a community of mobile homes in Raymond, New Hampshire, that we acquired as part of our acquisition of Pennichuck East Utility's systems in 1998.

One of the stricter standards now being developed by the United States Environmental Protection Agency (USEPA), will regulate the level of radon that's acceptable in our water supplies. In bedrock wells like those we have here in New England, the granite typically emits a certain amount of radon gas into the water. In anticipation of the pending requirements, Pennichuck has conducted comprehensive testing in all of our 74 individual wells. In the past, we would have used an outside lab, but given the importance and frequency of the testing, we opted to purchase a liquid-scintillation apparatus and bring this capability in-house. Some of our systems have two or three wells feeding into a single pump station, so it is important to sample and measure each well individually. In addition, we've already installed mitigation devices in certain wells, and we need to be able to measure their effectiveness for radon removal. By taking these precautions in advance, Pennichuck is well prepared to meet the projected future standard for a Minimum Contaminant Level (MCL) for radon.

Non-Regulated Water Operations

Over the years, Pennichuck has become extremely proficient in all aspects of operating smaller community water systems. Whether it's financing, building and instituting improvements, or taking care of day-to-day issues like water sampling, repairing or replacing equipment and managing customer concerns, Pennichuck has the expertise. From starting up a new treatment plant, to turning around an unprofitable system and making it financially viable, Pennichuck has done it before, for systems we've owned or acquired in the past. Along the way, we also gained valuable skills, and built a highly trained workforce, such that now, we can leverage these core competencies and offer this same valuable expertise to other customers in the non-regulated arena of the water industry. That's where Pennichuck Water Service Corporation (PWSC), our contract operations subsidiary, comes in.

Today, simply drinking a glass of water requires a huge act of faith. While stringent standards protecting the quality of municipal and residential water systems have long been in place, it's only recently that the government has started regulating non-transient, non-community water systems. These are defined as public facilities such as schools, daycare centers and apartment buildings, that cater to 25 or more people and are served by a



community well. The State of New Hampshire enforces the same standards that are mandated for community water systems. With an estimated 600 non-transient, non-community water systems in New Hampshire, plus many more in Massachusetts, these businesses present a huge opportunity for PWSC as they must now adhere to established water quality and reporting requirements and have their wells monitored and tested by a certified water operator.

In 1999, we laid the groundwork for expanding into this area of contract operations, and in 2000 PWSC secured 22 certified water operator contracts. Feedback from our customers has been highly encouraging. In the past, the "service" these owners typically received was limited to collecting a water sample, and sending a report to the State. Consequently, the full service expertise of PWSC is proving to be an advantage in this competitive marketplace. This becomes most evident when problems arise, because small-time operators lack the expertise to install any remediation systems, such as an inline disinfection device, which would be a routine procedure for us. These certified operator contracts also provide an extremely attractive financial return for PWSC, because servicing them requires very little upfront investment. We utilize most of the same equipment, vehicles and manpower that we already have. And in the event that a system requires capital investment, it is the responsibility of the owner rather than PWSC.

In 2000, PWSC began to have a noticeable impact on our total revenues. Revenues from contract operations reached $650,000 by the end of the year. We also implemented a new program to offer a service maintenance plan to our residential customers through PWSC, and we expect this to provide a new source of revenue beginning in 2001. In addition, PWSC continues to submit proposals and pursue opportunities for larger contracts in both New Hampshire and Massachusetts. However, unlike the regulated water industry, large-scale contract operations is proving to be a very highly competitive arena.

Regulatory Issues

Since the late 80s, one of our greatest challenges has been to maintain an appropriate balance between increasing environmental concerns and maintaining our ability to meet the growing demand for water service in our region. Water is invariably at the center of this debate, because if supplies are limited, so too is the potential for future development. However, we are now beginning to see regulations, including the New Hampshire Department of Environmental Services' (NHDES) proposed in-stream flow rule, that directly impact us at Pennichuck. The in-stream flow rule was written as part of a law passed in the late 80s and, would have forced Pennichuck to shut off our intake of water from the Merrimack River during certain times of the year. This would have been extremely detrimental, forcing us to curtail service to customers in certain areas. As a result, we have been working very closely with the State to amend the in-stream flow rule, and help develop new regulatory measures. When these new rules are promulgated and applied, we are confident they will address environmental concerns, and not put service to our customers in jeopardy.

Pennichuck management recognizes that developing reasonable solutions will require us all to make a compromise in order to satisfy the concerns of all constituencies, including environmental groups, businesses and residents. We respect the notion that there are finite limits to water resources, and that no one's use of water should be at the detriment of the environment. But who is more concerned about our natural resources than a water company? Pennichuck has always pursued professional and responsible management solutions, and we will continue to work with community leaders to find a reasonable balance between environmental concerns and the desire to accommodate long-term growth in the region. More than most, Pennichuck realizes how fortunate we are in New England to have an ample supply of water, and the very real need to protect it for the future.

Future Planning

People are our most important asset, and as we grow, the value of our people also grows. While Pennichuck has added a number of qualified new people, we have also made a sincere commitment to develop those employees we already have. We brought in consultants to coach our management executives on how to manage their staff more effectively. We've implemented training programs to help ensure our employees stay up to date with technological advancements. And we've made it a priority to develop the younger talent who represents the future of your Company. The current economic climate and low unemployment reinforce the need to train and retain our employees. In a service business like ours it is both a blessing and a significant competitive advantage to have such a knowledgeable workforce.

Technology continues to be an effective tool in helping us achieve greater efficiency and productivity in the face of the needs of our growing company. Currently, Pennichuck is in the process of installing a new enterprise management system, to be implemented in 2001, at a total cost of over $400,000. This program will replace our current work order, payroll, inventory, and purchase order process. The primary benefit of the new system is its ability to interface with most of our software applications, improving our operating efficiency

and reporting capabilities.

In 2000, we also completed a major upgrade to our web site at *www.Pennichuck.com*. We wanted to make the site more user-friendly, by providing more comprehensive information for our customers and shareholders. The modular design makes the site easy to update, and now, our site has a direct link to NASDAQ, giving you real time stock quotes. For financial reports, or any other news, the Pennichuck web site makes it easy to stay in touch and up-to-the-minute. And, if our customers have a question about their water quality or their bill, they can contact one of our Customer Service Representatives directly and get answers right away.

After a number of years of steady growth and increased revenues, our corporate headquarters have become a little cramped. Consequently, we are in the process of evaluating various alternatives as we consider relocating to another larger facility. There is a strong sentiment among your management team that we would like Pennichuck to remain within the Nashua area, our home base for over 149 years. However, the limited options available may ultimately force us to look outside the downtown area.

As we move ahead, Pennichuck is in a very strong position to expand, leveraging our core competencies in operating relatively small community water systems, and exploring opportunities in other non-regulated, water-related markets. In our regulated water operations, we have pursued a concentric growth strategy by establishing a service foothold in relatively distant areas, then in-filling with new customers and servicing other communities in between. While we continue to fill in more and more geographical areas in southern New Hampshire, we are actively looking to add more town-wide franchises not only in the central and northern part of the state, but in border areas of Massachusetts. Our ability to offer a choice of service options, including contract operations as well as acquisition, gives Pennichuck the flexibility to satisfy various specific needs and presents the most attractive solution for many towns and communities.

In 2000, Pennichuck built the foundation that would allow us to pursue several other initiatives on the non-regulated side of the water business. We intend to capitalize on the growing market for consulting and operating services to non-transient, non-community water systems, and recently began offering a service maintenance plan to our residential customers. We expect that these initiatives will make a significant contribution to our overall financial performance in the years to come.

To help ensure the long-term viability of our real estate subsidiary, The Southwood Corporation, we are focusing on turning the cash gains from our recent land sales into a sustainable income

HERON COVE

stream. At the same time, we are working to acquire additional protective land surrounding our water supply. Over the years, when Pennichuck has been able to purchase land that abuts our water supply, we've used it to establish a buffer. Now, we are looking at other parcels, ideally, contiguous to land we already own. Our goal is to take on the additional land and create a buffer for the water supply. Then, we would combine it with other holdings to create a viable, ongoing business opportunity that will provide a sustainable income stream and continue to contribute to your Company's revenues and growth. Southwood's current inventory of real estate is becoming depleted. By purchasing more property around our ponds, we achieve two goals. We'll be providing a valuable source of ongoing revenue, and we'll be helping to protect our watershed for the years to come.

Over the last few years, Pennichuck has made a considerable effort to increase our visibility within the water industry and in the communities we serve. We've been participating in tradeshows. We've been active in our industry associations. And we've been contacting our customers regularly, by direct mail, via our website, and over the telephone. Today, we are starting to reap the rewards of these proactive marketing efforts. Now the Pennichuck name is known in the industry. Suddenly people are calling us and soliciting our services. More and more referrals are coming at the request of the NHPUC. We have a reputation for providing a good product and providing a good service. Creating a win-win for us and for the communities we serve. At Pennichuck, our business is really beginning to snowball, and we expect that will reflect very positively in our results for 2001, and even more in the coming years.

FOR A QUICK UPDATE ON THE RECENT PENNICHUCK STOCK QUOTE, VISIT US AT WWW.PENNICHUCK.COM NOW WITH A DIRECT LINK TO NASDAQ.

Introduction

Pennichuck Corporation (the "Company") has five wholly-owned subsidiaries. Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. ("Pittsfield") are involved in water supply and distribution in cities and towns throughout southern and central New Hampshire. These water subsidiaries are regulated by the New Hampshire Public Utilities Commission ("NHPUC") and, as such, they must obtain approval to increase their water rates to recover increases in operating expenses and to obtain the opportunity to earn a return on rate base investments. Pennichuck Water Service Corporation (the "Service Corporation") is involved in non-regulated, water-related services and operations, and The Southwood Corporation ("Southwood") owns, manages and develops real estate.

As you read Management's Discussion and Analysis, please refer to the Company's Consolidated Financial Statements and Selected Financial Data contained in this Report. You should be aware that in January 1998 we merged with Pittsfield by exchanging 49,428 of our shares for substantially all of the outstanding common stock of Pittsfield. We used the pooling-of-interests method to account for this merger. This methodology requires us to add Pittsfield's historical financial statements with our historical financial statements for all periods which are shown prior to January 30, 1998.

Forward-Looking Statements

In addition to the historical financial information, this report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on several assumptions concerning future events and involve risks, uncertainties and factors which may be beyond the Company's control. As such, they may cause the actual performance of the Company to be materially different from the future results or performance implied by the forward-looking statements contained in this report. Such factors may include, among other things, changes in governmental regulations, changes in the economic and business environment, changes in capital requirements and unusual changes in weather conditions.

Accordingly, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Results of Operations

In this section, we discuss our 2000, 1999 and 1998 results of operations and the factors affecting them. We begin with a general overview of our basic earnings per share ("EPS") generated by our core businesses.

Earnings per Share of Common Stock

	Twelve Months Ended December 31		
	2000	1999	1998
Water utility operations	$.86	$1.18	$1.44
Real estate operations	1.11	.22	.16
Contract operations & other	.11	.10	.01
Consolidated EPS	$2.08	$1.50	$1.61

Our consolidated revenues tend to be significantly affected by weather conditions experienced throughout the year and by sales of major real estate parcels which may occur from time to time (see discussion below). Water revenues are typically at their lowest point during the first and fourth quarters of the calendar year. However, water revenues in the second and third quarters tend to be greater because of increased water consumption for non-essential usage by our customers during the late spring and summer months.

Results of Operations–2000 Compared to 1999

As indicated in the table above, there was a significant shift in the earnings among the Company's core businesses from 1999 to 2000. Although consolidated net income increased nearly 41% to $3.68 million from $2.62 million in 1999, practically all of that increase resulted from the gains on two major land sales by Westwood Park LLC ("Westwood"), in which Southwood has a controlling 60% ownership interest. The impact of those sales alone on earnings per share was $.74 in 2000.

Our consolidated revenues in 2000 were $23.67 million compared to $17.81 million last year, an increase of $5.86 million, or 33%. Of that increase, $4.9 million was attributable to the two Westwood land sales discussed above.

Water Utility Operations

On a combined basis, net income of our three utilities in calendar year 2000 was approximately $1.52 million, or $538,000 less than in 1999. Of that decrease, nearly $450,000 alone was attributed to Pennichuck, the Company's core water utility subsidiary while net income for Pennichuck East also declined by $107,000.

Utility operating revenues for 2000 totaled $15.96 million–a 2.25% decrease from 1999. For 2000, approximately 82%, 16% and 2% of our total utility operating revenues were generated by Pennichuck, Pennichuck East and Pittsfield, respectively which was not materially different than in 1999.

The principal reasons for the decrease in our utility revenues were:

- A $490,000 decrease in billed consumption within Pennichuck's core system from 1999 to 2000 resulting from the unusually hot and dry months of June and July 1999 compared to the cooler and damper weather conditions experienced in 2000; offset however,
- By an increase of 2.2% in the number of customers serviced by the three water utilities.

During 2000, none of our water utility subsidiaries were involved in any rate relief proceedings before the NHPUC. However, the combined return on our utilities' rate base investment has declined to 7.29%, or 113 basis points below the combined allowable return as currently approved by the NHPUC. Principally all of that shortfall has occurred within the Company's core utility, Pennichuck. Given this fact, Pennichuck expects to file for rate relief during the second quarter of 2001. Pennichuck's recent returns have also been adversely affected by nearly $5.2 million of new rate base investment and $1.25 million of additional operating expenses since its last rate filing in 1997. At this time, Pennichuck has not determined the percentage increase it intends to request and typically such rate case proceedings may take six to nine months before new rates become effective.

The expenses of operating our water utility business include such broad categories as:

- water treatment and purification,
- pumping and other distribution system functions,
- general and administrative functions,
- depreciation on existing operating assets, and
- taxes other than income taxes (principally property taxes).

Our utility operating expenses increased by $609,000, or 5.5%, to $11.6 million for the twelve months ended December 31, 2000. That increase is attributable to (i) $189,000 of additional depreciation expense and $89,000 of additional property taxes incurred by our three utilities during 2000 reflecting their $3.5 million net investment in new plant assets during 2000 and $4.7 million in 1999 and (ii) approximately $160,000, or 4.9%, for additional administrative costs, primarily health insurance and other benefit costs. As a result of the decrease in utility revenues and increase in utility expenses from 1999 to 2000, the utilities' combined operating income as a percentage of combined utility revenues decreased from 32.6% to 27.2%, respectively.

Real Estate and Other Operations

Net income from our real estate and other operations was $2.16 million and $557,000 for the twelve months ended December 31, 2000 and 1999, respectively. The following table provides a breakout of net income by business segment for the past two years.

	2000	1999
Real estate	$1,963,000	$381,000
Contract operations	97,000	56,000
Other	102,000	120,000
Total	$2,162,000	$557,000

Real estate earnings during 2000 were positively impacted by two principal land sales and by Southwood's continued involvement in residential joint ventures. The two major land sales alone accounted for nearly $1.22 million in net income for 2000. There were no such major land sales in 1999.

In 2000, real estate revenues increased to $6.99 million compared to $860,000 in 1999 for the following reasons:

- $5.49 million from the sale of two land parcels by Westwood Park, LLC in which Southwood has a 60% ownership interest,
- $1.33 million from two residential partnerships in which Southwood has a 50% ownership, and
- $100,000 from the sale of a one-half interest in a 6.3 acre land parcel to a local developer.

In connection with the last item, Southwood and its partner conveyed their respective interests into a limited liability corporation known as Heron Cove Office Park II ("HECOP II") which constructed and owns a 42,000 square foot office building. In 1999, Southwood entered into a similar transaction in which it sold a one-half interest in a separate land parcel for $72,000 and established Heron Cove Office Park I LLC ("HECOP I") which owns a 39,000 square foot office building. For the years ended December 31, 2000 and

1999 respectively. Southwood recorded $48,000 and $33,000 as its 50% share of operating losses from HECOP I and HECOP II. Both of these buildings were fully leased to third parties at December 31, 2000.

The robust housing market in southern New Hampshire during 2000 is reflected in the performance of the two residential partnerships in which Southwood participated last year. Ayers Crossing LLC was formed for the construction and sale of 7 homes which was begun and concluded in calendar year 2000. Heron Cove LLC began construction and sales in 1999 that continued throughout 2000. In 2000, Heron Cove LLC sold 42 homes to third parties compared to 30 homes in 1999. The remaining 15 homes, which are currently under purchase and sales contracts, are expected to be sold by the end of the third quarter in 2001.

Revenues from contract operations conducted by the Service Corporation during 2000 increased $111,000 over 1999 to $650,000. Of that increase, nearly $80,000 was derived from 22 new contracts under which the Service Corporation performs various water-related monitoring, maintenance, testing and compliance reporting services for water systems throughout New Hampshire. Other operating revenues totaling $68,000 in 2000 and $78,000 in 1999 were derived from sundry lease and laboratory activities conducted by the Company and the Service Corporation.

The operating expenses associated with our real estate and other non-utility activities increased significantly from $728,000 in 1999 to $2.84 million in 2000. Of that increase, $1.87 million relates to the allocated land and development costs associated with the Westwood land sales discussed earlier. The remaining non-utility operating costs in 2000 are principally comprised of (i) $505,000 for contract operations and other services, (ii) $73,000 of property taxes on Southwood's landholdings and (iii) $250,000 for property management and other costs associated with Southwood's real estate activities.

Results of Operations – 1999 Compared to 1998

For calendar year 1999, our consolidated net income increased 24% to $2.62 million from $2.1 million in 1998 while our basic earnings per share decreased to $1.50 from $1.61 last year. However, for 1999, the basic earnings per share calculations included the dilutive effect of an additional 483,000 new common shares which were issued by us in our November 1998 common equity offering. Those additional shares represented a 39% increase in our then outstanding common shares.

Water Utility Operations

Utility operating revenues for 1999 totaled $16.3 million–a $1.36 million increase over the same period in 1998. For 1999, approximately 81%, 16% and 3% of our total utility operating revenues were generated by Pennichuck, Pennichuck East and Pittsfield, respectively.

The principal reasons for our utility revenue growth in 1999 were:

- additional revenues of $556,000 in 1999 from Pennichuck East which began its operations in April 1998,
- additional billed revenues of approximately $450,000 from a 16.8% rate increase granted to Pennichuck which became effective on April 1, 1998, and
- additional revenues of approximately $350,000 resulting from increased water consumption within Pennichuck's core and community systems due to the unusually hot and dry months of June and July 1999 and a 1.5% overall growth rate in new customers.

Our operating expenses increased by $1.1 million, or 11.2%, to $11 million for the twelve months ended December 31, 1999. That increase is attributable to (i) $312,000 of new operations and maintenance costs relating to the addition of Pennichuck East which began operations in April 1998, (ii) $229,000 of additional depreciation expense and $83,000 of additional property taxes incurred by our three utilities during 1999 as a result of their $4.7 million net investment in new plant assets during 1999 and $3.7 million in 1998 and (iii) approximately $302,000 of additional production and treatment costs incurred during 1999 due to the increased consumption discussed earlier. The combined utility operating income as a percentage of combined utility revenues decreased from 33.9% in 1998 to 32.6% in 1999.

Real Estate and Other Operations

For the twelve months ended December 31, 1999 and 1998, the revenues from all of our real estate and other activities totaled $1.48 million and $2.42 million, respectively. Of those amounts, approximately $860,000 and $1.91 million relate to real estate revenues which we earned during those comparative periods, respectively.

In 1999, Southwood's revenues included the following:

- $714,000 from partnership activities earned through its 50% ownership interest in two residential joint ventures,
- $85,000 of option fee income earned under a development option agreement with a regional developer, and
- a pretax gain of $72,000 from the sale of a one-half interest in a land parcel to a local developer.

Fiscal year 1998 real estate revenues included approximately $1.38 million from the sale of a major tract of land by Westwood Park, LLC. Westwood's pretax operating loss for 1999 was $73,000, resulting primarily from real estate taxes and interest on an outstanding construction loan.

Revenues from other operating activities during 1999 included $539,000 for contract operations and laboratory analyses performed by the Service Corporation and $79,000 from lease and miscellaneous income. For the same period in 1998, revenues of the Service Corporation were approximately $436,000 consisting of $270,000 in contract operations income and $65,000 of sundry revenues. In April 1998, the Service Corporation signed a five year contract with the neighboring Town of Hudson, New Hampshire.

The operating expenses associated with our real estate and other non-utility activities decreased from $1.78 million in 1998 to $728,000 in 1999. Of that decrease, $1.1 million relates to the allocated land and development costs associated with the 1998 Westwood land sale discussed earlier. The non-utility operating costs in 1999 are principally comprised of (i) $486,000 for contract operations and other services, (ii) $68,000 of property taxes on Southwood's landholdings, and (iii) $174,000 for property management and other costs associated with Southwood's real estate activities, including the $73,000 Westwood loss discussed above.

Liquidity and Financial Condition

The following paragraphs discuss the financial condition of the Company and its wholly-owned subsidiaries. This discussion focuses primarily on the adequacy of available capital needed for our business activities.

Over the past two years, the primary sources of cash needed for normal operating activities, capital projects and dividend payments were available cash from the Company's short-term investments and from the operating cash flow generated from day-to-day business activities. During previous periods when available cash and operating cash flow were not sufficient, we have borrowed funds under a revolving loan facility (the "Loan Agreement") with our bank. The Loan Agreement allows the Company and its subsidiaries to borrow up to $2.5 million at interest rates tied to the bank's cost of funds or LIBOR, whichever is lower. However, during 2000 and 1999, there were no borrowings outstanding under this Loan Agreement.

For the year ended December 31, 2000, the Company's cash position increased $1.29 million principally as a result of $2.45 million of operating cash flow generated by Southwood's real estate operations which was offset by cash needs of $1.16 million by our water utility business. Given the one-time nature of the real estate sales that occurred in 2000, it is likely that the positive consolidated cash flow generated by the Company in 2000 may not be repeated in 2001. Throughout 2000 and 1999, any available excess cash was invested in short-term money market funds and as a result, the Company realized approximately $141,000 in interest income last year and $169,000 in 1999. For 2001, our cash flow needs are expected to be met from internally-generated funds and, if needed, from short-term investments which totaled $3.73 million available at the end of 2000.

Our capital expenditures in 2000 totaled $7.47 million, of which approximately $4.2 million was in the form of contributions in aid of construction from grants and area developers. Practically all of our capital expenditures in 2000 were for projects relating to our water utility business. The more significant projects included:

- $1.33 million for an interconnection with an adjoining municipal water system and our franchise in Londonderry, New Hampshire.
- $915,000 for replacing aging distribution mains in Nashua and Pittsfield, New Hampshire.
- $832,000 for various new main installations and system upgrades in Pennichuck's and Pennichuck East's community systems.
- $236,000 for the initial phase of software and system development of a Company-wide enterprise resource planning program.

The remaining items in the Company's 2000 capital program reflect expenditures for ongoing, routine investment in new meters, services, distribution mains and hydrants, and sundry system improvements. For 2001, we expect that our total expenditures for capital projects will be approximately $7.57 million, of which $1.24 million is expected to be funded by contributions in aid of construction, state grants and low-interest, state revolving loans. The remainder is expected to be funded by internally-generated cash and from our short-term investments.

Over the next several years, Pennichuck expects that its capital investment program will include significant expenditures for replacing aging distribution mains in Nashua and in certain smaller community water systems. In 1999, the City of Nashua (the "City") began a public works program mandated by the United States Environmental Protection Agency ("USEPA") requiring the City to separate its stormwater runoff and sewer discharge systems over the next 10 years. Pennichuck will take the opportunity to replace any aged or deteriorating water mains in those sections where the City is performing its sewer separation work. In the past 2 years, Pennichuck has spent approximately $1.1 million replacing its aged mains and its 2001 capital budget includes $1.13 million for similar work. It is likely that Pennichuck will continue to spend $1 to $2 million annually on replacing its aging infrastructure within Nashua.

The Consolidated Balance Sheet at December 31, 2000 and 1999 also reflects a line item captioned "Minority interest" totaling $1.15 million and $295,000, respectively. This represents a 40% interest held by a third party in Westwood Park LLC ("Westwood"), a real estate development venture. Southwood owns the remaining 60% majority interest in Westwood, whose financial statements are included in the accompanying consolidated financial statements.

Dividend Reinvestment and Common Stock Purchase Plan

We offer a Dividend Reinvestment and Common Stock Purchase program which is available to our shareholders. Under this program, our shareholders may reinvest all or a portion of their common dividends into shares of common stock at a 5% discount from prevailing market prices. We also accept optional cash payments to purchase additional shares at 100% of the prevailing market prices. Since its inception in 1993, this program has provided the Company with nearly $1.35 million of additional common equity.

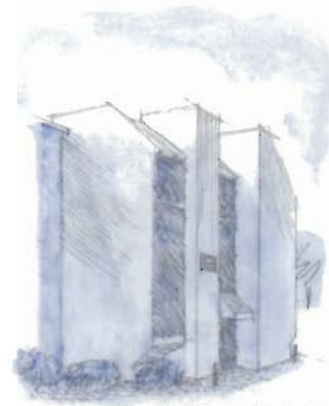
Environmental Matters

Our water utility subsidiaries are subject to the water quality regulations set forth by the USEPA and the New Hampshire Department of Environmental Services ("NHDES"). The USEPA is required to periodically set new maximum contaminant levels for certain chemicals as required by the federal Safe Drinking Water Act ("SDWA"). The quality of our treated water currently meets or exceeds all standards set by the USEPA and the NHDES We do not anticipate that any significant capital expenditures for regulatory compliance will be required in the next three years given the present water quality standards set by the SDWA and those proposed standards for the year 2001. However, increased monitoring and reporting standards have led to additional operating costs for us. Additional monitoring and testing costs arising from USEPA and NHDES mandates should eventually be recouped through water rates in our utilities' next rate filings.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." While not material, the effect of this Statement is discussed in "Note C - Debt" to the Notes to Consolidated Financial Statements.

BOARD OF DIRECTORS AND OFFICERS



WATER STREET

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James L. Sullivan Jr., Esquire

AUDITOR'S REPORT

REPORT OF ARTHUR ANDERSEN LLP, INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of Pennichuck Corporation:

We have audited the accompanying consolidated balance sheets of Pennichuck Corporation and subsidiaries (a New Hampshire corporation) as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pennichuck Corporation and subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Boston, Massachusetts

February 2, 2001

PENNICHUCK CORPORATION AND SUBSIDIARIES

ASSETS	Year Ended December 31 2000	1999
Property, Plant and Equipment		
Land	$ 1,211,903	$998,458
Buildings	23,201,005	22,498,206
Equipment	65,948,723	58,619,793
Construction work in progress	528,542	954,773
	90,890,173	83,071,230
Less accumulated depreciation	(22,452,617)	(20,066,457)
	68,437,556	63,004,773
Current Assets		
Cash	3,731,634	2,437,674
Restricted cash	1,002,855	897
Accounts receivable, net of reserves of $37,000 in 2000 and 1999	1,395,606	1,333,072
Unbilled revenue	1,198,000	1,175,955
Refundable income taxes	370,134	271,312
Materials and supplies, at cost	354,002	311,712
Prepaid expenses and other current assets	400,896	467,587
	8,453,127	5,998,209
Other Assets		
Deferred land costs	2,521,560	3,753,144
Deferred charges and other assets	2,751,353	2,430,389
Investment in real estate partnerships	716,410	394,329
	5,989,323	6,577,862
	$82,880,006	$75,580,844

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

PENNICHUCK CORPORATION AND SUBSIDIARIES

STOCKHOLDERS' EQUITY AND LIABILITIES	Year Ended December 31	
	2000	1999
Stockholders' Equity		
Common stock - $1 par value - authorized 11,500,000 shares in 2000 and 5,000,000 shares in 1999; issued 1,769,736 in 2000 and 1,761,070 shares in 1999	$ 1,769,736	$ 1,761,070
Additional paid in capital	14,667,282	14,457,786
Retained earnings	12,342,510	10,361,038
	28,779,528	26,579,894
Less cost of 7,346 shares of common stock in treasury in 2000 and 14,418 shares in 1999	(183,895)	(322,585)
	28,595,633	26,257,309
Minority Interest	1,149,673	294,809
Preferred stock, no par value, 100,000 shares authorized, no shares issued in 2000 and 1999	--	--
Long-term debt, less current portion	26,917,860	27,223,378
Current Liabilities		
Current portion of long-term debt	319,155	1,042,593
Accounts payable	724,832	479,333
Accrued interest payable	415,685	382,703
Other current liabilities	1,013,280	1,115,537
	2,472,952	3,020,166
Commitments and Contingencies	--	--
Deferred Credits and Other Reserves		
Deferred income taxes	5,320,538	4,360,463
Deferred investment tax credits	1,065,246	1,098,282
Regulatory liability	1,179,689	1,194,870
Post-retirement health benefit obligation	593,267	518,285
Customer advances and other liabilities	258,304	313,177
	8,417,044	7,485,077
Contributions in Aid of Construction	15,326,844	11,300,105
	$82,880,006	$75,580,844

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

CONSOLIDATED STATEMENTS OF INCOME

PENNICHUCK CORPORATION AND SUBSIDIARIES

	Year Ended December 31		
	2000	1999	1998
Revenues			
Water utility operations	$15,963,540	$16,331,633	$14,972,347
Real estate and other operations	7,707,936	1,477,625	2,422,447
	23,671,476	17,809,258	17,394,794
Operating Expenses			
Water utility operations	11,614,329	11,005,271	9,898,732
Real estate and other operations	2,841,227	728,083	1,776,938
	14,455,556	11,733,354	11,675,670
Operating Income	9,215,920	6,075,904	5,719,124
Other income	183,086	170,305	33,586
Interest expense	(1,991,488)	(2,024,601)	(2,263,636)
Income Before Provision for Income Taxes	7,407,518	4,221,608	3,489,074
Provision for Income Taxes	2,869,993	1,625,212	1,342,405
Net Income Before Minority Interest	4,537,525	2,596,396	2,146,669
Minority Interest in Loss (Earnings) of Westwood Park LLC	(854,864)	19,269	(40,616)
Net Income	$ 3,682,661	$ 2,615,665	$ 2,106,053
Earnings Per Common Share:			
Basic	$2.08	$1.50	$1.61
Diluted	$2.07	$1.49	$1.59
Weighted Average Shares Outstanding:			
Basic	1,770,575	1,745,698	1,306,286
Diluted	1,776,954	1,755,659	1,327,383

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

PENNICHUCK CORPORATION AND SUBSIDIARIES

	Common Stock-Shares	Common Stock-Amount	Additional Paid in Capital	Retained Earnings	Treasury Stock
Balances at December 31, 1997	1,213,001	$1,213,001	$5,229,727	$8,199,557	$(52,940)
Net income				2,106,053	
Common stock offering, net	483,000	483,000	8,319,337		
Dividend reinvestment plan	12,322	12,322	194,027		
Common dividends declared – $.79 per share				(970,196)	
Exercise of stock options	6,378	6,378	52,785		(6,300)
Retirement of repurchased shares	(465)	(465)	(5,248)		
Directors' deferred compensation plan			30,131		
Balances at December 31, 1998	1,714,236	1,714,236	13,820,759	9,335,414	(59,240)
Net income				2,615,665	
Dividend reinvestment plan	12,600	12,600	268,169		
Common dividends declared – $.92 per share				(1,590,041)	
Exercise of stock options	34,234	34,234	347,946		(279,783)
Common equity issuance costs			(10,000)		
Directors' fees and other deferred compensation plan			30,912		16,438
Balances at December 31, 1999	1,761,070	1,761,070	14,457,786	10,361,038	(322,585)
Net income				3,682,661	
Dividend reinvestment plan	4,055	4,055	134,490		142,432
Common dividends declared – $.97 per share				(1,701,189)	
Exercise of stock options	4,611	4,611	50,786		(44,953)
Directors' fees and other deferred compensation plan			24,220		41,211
Balances at December 31, 2000	1,769,736	$1,769,736	$14,667,282	$12,342,510	$(183,895)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

PENNICHUCK CORPORATION AND SUBSIDIARIES

	Year Ended December 31		
	2000	1999	1998
Operating Activities:			
Net income	$3,682,661	$2,615,665	$2,106,053
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,171,766	2,141,767	1,935,581
Amortization of deferred investment tax credits	(33,036)	(33,036)	(33,036)
Provision for deferred income taxes	944,895	926,574	651,575
Changes in assets and liabilities:			
Accounts receivable and unbilled revenue	(84,579)	(177,698)	(576,443)
Refundable income taxes	(98,822)	(219,793)	(38,548)
Materials and supplies	(42,290)	8,032	(111,912)
Prepaid expenses	322,670	2,765	14,077
Deferred charges and other assets	(176,809)	(865,345)	(1,594,872)
Accounts payable and accrued expenses	(79,755)	403,258	389,865
Other	78,796	96,166	18,713
Net cash provided by operating activities	7,685,497	4,898,355	2,761,053
Investing Activities:			
Purchases of property, plant & equipment	(7,740,316)	(6,735,185)	(11,278,815)
Contributions in aid of construction	4,191,247	2,012,082	676,190
(Increase) decrease in restricted cash	(1,001,958)	(258)	905,129
(Increase) decrease in investment in real estate partnerships	(322,081)	(231,148)	154,942
Net cash (used) in investing activities	(4,873,108)	(4,954,509)	(9,542,554)
Financing Activities:			
Proceeds from long-term borrowings	12,860	263,198	9,446,395
Proceeds from common stock offering, net	--	--	8,802,337
Payments on long-term debt	(1,041,816)	(182,224)	(4,259,016)
Net (decrease) in notes payable to bank	--	--	(3,680,000)
Increase (decrease) in minority interest	854,864	(19,269)	314,078
Dividends paid	(1,701,189)	(1,590,041)	(970,197)
Proceeds from dividend reinvestment plan and other, net	356,852	420,516	281,631
Net cash (used in) provided by financing activities	(1,518,429)	(1,107,820)	9,935,228
Increase (decrease) in cash	1,293,960	(1,163,974)	3,153,727
Cash at beginning of year	2,437,674	3,601,648	447,921
Cash at end of year	$3,731,634	$2,437,674	$3,601,648

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

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of Pennichuck Corporation and subsidiaries are as follows:

Basis of Presentation: The consolidated financial statements include the accounts of Pennichuck Corporation, an investor-owned holding company (the "Company") and its subsidiaries, Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East"), Pittsfield Aqueduct Company, Inc. ("Pittsfield"), Pennichuck Water Service Corporation (the "Service Corporation") and The Southwood Corporation ("Southwood").

Nature of Operations: Pennichuck, Pennichuck East and Pittsfield (collectively referred to as the "Company's utility subsidiaries") are engaged principally in the gathering and distribution of potable water to approximately 27,700 customers in southern and central New Hampshire. The Service Corporation is involved in providing non-regulated, water-related services to over 5,000 customers while Southwood owns, manages and develops real estate.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions. These may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property, Plant and Equipment: Property, plant and equipment, which includes principally the water utility assets of the Company's utility subsidiaries, is recorded at cost plus an allowance for funds used during construction ("AFUDC") on major additions. The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets including property funded with contributions in aid of construction ("CIAC"). The useful lives range from 6 to 90 years and the average composite depreciation rate was 2.55% and 2.24% in 2000 and 1999, respectively.

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

Allowance for Funds Used During Construction: AFUDC represents a non-cash credit to income with a corresponding charge to plant in service. AFUDC amounts reflect the cost of borrowed funds and, if applicable, equity capital when used to fund major plant construction projects. Such AFUDC amounts were immaterial for 2000, 1999 and 1998.

Revenues: Standard charges for water utility services to customers are recorded as revenue, based upon meter readings. 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.

Deferred Charges and Other Assets: Deferred charges include certain regulatory assets and costs of obtaining debt financing. Regulatory assets are amortized over periods being recovered through authorized rates. Debt expenses are amortized over the term of the related bonds and notes.

Regulatory Assets: The Company's utility subsidiaries are subject to the provisions of Statement of Financial Accounting Standard ("SFAS") 71, *"Accounting for the Effects of Certain Types of Regulations."* Such utility subsidiaries have recorded certain regulatory assets in cases where the New Hampshire Public Utilities Commission (the "NHPUC") has permitted, or is expected to permit, recovery of these costs over future periods. Included in deferred charges and other assets are regulatory assets totaling $961,235 and $789,671 at December 31, 2000 and 1999, respectively.

Deferred Land Costs: Included in deferred land costs are Southwood's original basis in its landholdings and developmental costs for its Corporate Park. Deferred land costs are stated at the lower of cost or market.

Investment in Partnerships: Southwood is a 50% general partner in two residential development projects and has sold certain parcels of land to those partnerships in exchange for promissory notes. Revenues relating to the sales of those parcels are deferred until the lots are ultimately sold to third parties. Real estate transactions are presented using the cost recovery method. Under this method, any deferred gain and related note receivable are offset for financial statement purposes. Southwood's investment in these partnerships is recorded using the equity method of accounting. As of December 31, 2000 and 1999, the notes receivable balance was $172,500 and $655,500, respectively, which was offset by the deferred gain of approximately $170,000 and $645,000, in 2000 and 1999, respectively.

Income Taxes: The provision for federal and state income taxes is based on income reported in the 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. Investment credits previously realized for income tax purposes are amortized for financial statement purposes over the life of the property giving rise to the credit.

Contributions in Aid of Construction: Under construction contracts with real estate developers and others, Pennichuck receives non-refundable advances for the costs of new main installation. The CIAC account and related plant asset are amortized over the life of the property.

Pennichuck also credits to 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.

Earnings Per Share: The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share for the twelve months ended December 31, 2000, 1999 and 1998.

	Year Ended		
	2000	1999	1998
Basic earnings per share	$2.08	$1.50	$1.61
Dilutive effect of unexercised stock options	(.01)	(.01)	(.02)
Diluted earnings per share	$2.07	$1.49	$1.59
Numerator:			
Basic net income	$3,682,661	$2,615,665	$2,106,053
Diluted net income	$3,682,661	$2,615,665	$2,106,053
Denominator:			
Basic weighted average shares outstanding	1,770,575	1,745,698	1,306,286
Dilutive effect of unexercised stock options	6,379	9,961	21,097
Diluted weighted average shares outstanding	1,776,954	1,755,659	1,327,383

NOTE B - INCOME TAXES

The components of the federal and state income tax provision at December 31 are as follows:

	2000	1999	1998
Federal	$2,309,552	$1,320,519	$1,088,849
State	593,477	337,729	286,592
Amortization of investment tax credits	(33,036)	(33,036)	(33,036)
	$2,869,993	$1,625,212	$1,342,405
Currently payable	$2,220,703	$ 816,062	$ 856,765
Deferred	649,290	809,150	485,640
	$2,869,993	$1,625,212	$1,342,405

The following is a reconciliation between the statutory federal income tax rate and the effective income tax rate for 2000, 1999 and 1998:

	2000	1999	1998
Statutory federal rate	34.0%	34.0%	34.0%
State tax rate, net of federal benefit	5.3	5.3	5.4
Amortization of investment tax credits	(.6)	(.8)	(.9)
Effective tax rate	38.7%	38.5%	38.5%

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NOTE B - INCOME TAXES CONTINUED

The Company made income tax payments of $1,349,149, $858,892 and $802,564 in 2000, 1999 and 1998, respectively.

The Company did not have any alternative minimum tax credits available at December 31, 2000 compared to $65,522 available at the end of 1999.

The Company has a regulatory liability related to income taxes of $1,179,689 and $1,194,870 at December 31, 2000 and 1999, 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. The liability is being amortized consistent with the Company's ratemaking treatment.

The temporary items that give rise to the net deferred tax liability at December 31, 2000 and 1999 are as follows:

Liabilities:	2000	1999
Property related	$6,887,537	$6,171,627
Other	585,749	330,757
	7,473,286	6,502,384
Assets:		
Investment tax credits	672,992	688,173
Regulatory liability	506,697	197,282
Alternative minimum tax carryforward	---	65,522
Taxes on contributions in aid of construction	766,187	832,288
Other	206,872	358,656
	2,152,748	2,141,921
Net Deferred Tax Liabilities	$5,320,538	$4,360,463

NOTE C - DEBT

Long-term debt at December 31 consists of the following:

Unsecured notes payable to various insurance companies:	2000	1999
9.10%, due April 1, 2005	$3,500,000	$3,500,000
7.40%, due March 1, 2021	8,000,000	8,000,000
Unsecured Industrial Development Authority Revenue Bond 1988 Series, 7.50%, due July 1, 2018	1,170,000	1,235,000
Unsecured Business Finance Authority 1994 Revenue Bond (Series A), 6.35%, due December 1, 2019	2,880,000	2,940,000
Unsecured Business Finance Authority 1994 Revenue Bond (Series B), 6.45%, due December 1, 2016	1,670,000	1,860,000
Unsecured Business Finance Authority 1997 Revenue Bond, 6.30%, due May 1, 2022	4,000,000	4,000,000
Secured notes payable to bank, floating rate, due April 8, 2005	6,000,000	6,000,000
Unsecured New Hampshire State Revolving Fund Loan, 3.8%, due November 1, 2020	12,860	---
Mortgage construction loan to bank at LIBOR plus 175 points due September 11, 2000	----	709,593
Capitalized lease obligation	4,155	21,378
	27,237,015	28,265,971
Less current portion	319,155	1,042,593
	$26,917,860	$27,223,378

NOTE C – DEBT CONTINUED

The 1994 Series A and B Bonds are not subject to optional redemption until 2004 at which time they may be redeemed in whole or in part at a premium not to exceed 2% and may be redeemed at par on or after December 1, 2008. The notes and bonds payable require periodic interest payments (either monthly or semi-annually) which are based on the outstanding principal balances. The aggregate principal payment requirements subsequent to December 31, 2000 are as follows:

2001	319,155
2002	315,000
2003	315,000
2004	315,000
2005	315,000
2006 and thereafter	25,657,860

The note and bond agreements require, among other things, the maintenance of certain financial ratios and restrict the payment or declaration of dividends by Pennichuck. Under Pennichuck's most restrictive covenant, cumulative common dividend payments or declarations by Pennichuck subsequent to December 31, 1989 are limited to cumulative net income earned after that date plus $1,000,000. At December 31, 2000, approximately $4,056,000 of Pennichuck's retained earnings was unrestricted for payment or declaration of common dividends.

During 2000, 1999 and 1998, the Company paid interest of $1,905,473, $1,967,318 and $2,200,659, respectively.

The Company has available a $2,500,000 unsecured, revolving credit facility with a bank and during 2000 and 1999, there were no outstanding borrowings under this facility. Any subsequent outstanding borrowings would be due on June 30, 2002.

The Company has entered into interest rate exchange agreements to mitigate interest rate risks associated with its floating-rate loans. The agreements provide for the exchange of fixed rate interest payment obligations for floating rate interest payment obligations on notional amounts of principal. The net amounts paid and received under the agreements are reflected as interest expense.

On April 24, 1998, the Company entered into two interest rate swap agreements at a fixed rate of 6.50%. The notional amount of the debt for which interest rate exchanges have been entered into under these agreements is $6,000,000 at December 31, 2000. SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137, *Deferral of the Effective Date of SFAS No. 133* and SFAS No. 138, *An Amendment to SFAS No. 133*, establishes certain accounting and reporting standards requiring every derivative instrument to be recorded in the Company's balance sheet as either an asset or liability measured at its fair value. These Statements require that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting treatment for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that the Company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133, as amended, is effective for fiscal years beginning after June 15, 2000. The Company completed its review and implementation of SFAS No. 133, effective January 1, 2001. The Company has taken an inventory of its contracts and determined that the interest rate swap contract mentioned above represents a derivative under SFAS No. 133. This contract qualifies for hedge accounting under SFAS No. 133. The Company does not expect this contract to have a material effect on the financial position or results of operations of the Company.

NOTE D – FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of certain financial instruments included in the accompanying Consolidated Balance Sheet as of December 31, 2000 is as follows:

	Carrying Value	Fair Value
Long-term debt	$27,237,015	$28,818,000
Interest rate swaps	$-0-	$ (213,000)

There are no quoted market prices for the Company's various long-term debt issues and thus, their fair values have been determined based on quoted market prices for securities similar in nature and in remaining maturities. 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 the Company's interest rate swaps represents the estimated unrealized gain to terminate these agreements based upon current interest rates.

The carrying values of the Company's cash and restricted cash approximate their fair values because of the short maturity dates of those financial instruments.

NOTE E - BENEFIT PLANS

PENSION PLAN

The Company has a defined benefit pension plan covering substantially all full-time employees. The benefits are formula-based, giving consideration to both past and future service. The Company's funding policy is to contribute annually up to the maximum amount deductible for federal tax purposes. 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.

The following table sets forth the plan's funded status and amounts recognized in the Company's consolidated balance sheets at December 31:

Actuarial present value of benefit obligations:	2000	1999
Accumulated benefit obligation, including vested benefits of $2,737,758 in 2000 and $2,268,511 in 1999	$2,772,035	$2,280,267
Projected benefit obligation for service rendered to date	(3,299,694)	(2,978,617)
Plan assets at a fair value (insurance contracts)	3,294,074	3,223,705
Plan assets in excess of (less than) projected benefit obligation	(5,620)	245,088
Prior service costs	5,951	6,736
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	454,327	176,568
Unrecognized net transition asset	(83,258)	(97,065)
Prepaid pension cost included in deferred charges and other assets	$371,400	$331,327

Net pension cost for 2000, 1999 and 1998 includes the following components:

	2000	1999	1998
Service cost - benefits earned during the period	$189,730	$186,006	$149,581
Interest cost on projected benefit obligation	219,624	201,832	180,820
Expected return on plan assets	(277,061)	(255,738)	(226,636)
Amortization of (gains) and deferrals	(11,374)	(1,536)	(12,708)
Net periodic pension cost	$120,919	$130,564	$91,057

For the years ended December 31, 2000 and 1999, the actuarial present value of the projected benefit obligation was determined using a discount rate of 7.5% and an assumed rate of increase in future compensation levels of 5%. The expected long-term rate of return on plan assets was 9% in 2000, 1999 and 1998.

SALARY DEFERRAL PLAN

In addition, the Company has a salary deferral plan covering substantially all full-time employees. Under this plan, the Company matches 100% of the first 3% of the employee's salary contributed to the plan. The matching employer's contributions were $101,644, $91,469 and $78,312, respectively, for 2000, 1999 and 1998.

OTHER POST-RETIREMENT BENEFITS

The Company provides post-retirement medical benefits to current and retired employees, which are payable upon reaching normal retirement date. Future benefits payable to current employees are capped based on the actual percentage of wage and salary increases earned from the plan inception date to normal retirement date. The accumulated benefit obligation, unrecognized transition obligation and net periodic post-retirement benefit cost for the years ended December 31, 2000 and 1999 are as follows:

Accumulated post-retirement benefit obligation:	2000	1999
Current active employees	$(501,269)	$(447,740)
Retirees	(152,434)	(152,434)
Total	(653,703)	(600,174)
Plan assets at fair value	145,052	72,335
Funded status (underfunded)	(508,651)	(527,839)
Unrecognized net (gain)	(109,844)	(119,911)
Unrecognized prior service cost	95,600	110,100
Unrecognized transition obligation	60,800	91,700
Accrued post-retirement benefit cost, net	$(462,095)	$(445,950)

NOTE E - BENEFIT PLANS CONTINUED

Service cost	$28,538	$37,995
Interest cost	40,583	39,643
Amortization of prior service cost	14,500	14,500
Amortization of transition obligation	30,900	30,900
Amortization of unrecognized (gains)	(2,826)	(1,505)
Net periodic post-retirement benefit cost	$111,695	$121,533

The Company is presently allowed to recover a portion of the post-retirement benefits relating to active employees and retirees in its rates. To calculate the estimated accumulated benefit obligation, the Company has assumed a discount rate of 7.75% in 2000 and 1999, and a maximum medical care cost trend rate of 5% in 2000 and 1999, which is the projected annual increase in future compensation levels. A one percent increase in the assumed health care cost trend rate would not have had a material effect on the post-retirement benefit cost or the accumulated post-retirement benefit obligation in 2000.

NOTE F - STOCK BASED COMPENSATION PLANS

The Company has a stock option plan for officers and key employees which provides for incentive options. The Company accounts for the plan under APB Opinion No. 25, under which no compensation cost has been recognized in the Consolidated Statements of Income. On a pro forma basis, the Company's net income and earnings per share would have been reduced to the following amounts had compensation cost for the plan been determined consistent with SFAS No. 123, *"Accounting for Stock Based Compensation."*

Net income:	2000	1999
As reported	$3,682,661	$2,615,665
Pro forma	$3,461,126	$2,586,364
Earnings per share:		
As reported	$2.08	$1.50
Pro forma	$1.95	$1.48

At December 31, 2000, all options which had been granted were exercisable and 167,988 shares were available for future grants. The following table shows the option plan activity for 1998, 1999 and 2000:

	Options Outstanding	Price Per Share
Balance at December 31, 1997	40,381	$8.33-$11.50
Granted	11,288	$12.67
Expired	(646)	$8.33
Exercised	(6,378)	$8.33-$12.67
Balance at December 31, 1998	44,645	$10.00-$12.67
Granted	9,900	$21.00
Expired	(275)	$10.00
Exercised	(34,234)	$10.00-$21.00
Balance at December 31, 1999	20,036	$10.00-$21.00
Granted	22,250	$31.00
Expired	---	---
Exercised	(4,611)	$10.00-$21.00
Balance at December 31, 2000	37,675	$10.83-$31.00

Of the 37,675 options outstanding at December 31, 2000, 1,989 have an exercise price of $11.50 and a remaining contractual life of 5 years; 2,214 shares have an exercise price of $10.83 and a remaining contractual life of 6 years; 2,964 shares have an exercise price of $12.67 and a remaining life of 7 years; and 8,258 shares have an exercise price of $21.00 and a remaining life of 8 years; and 22,250 shares have an exercise price of $31.00 and a remaining life of 9 years. Shares acquired pursuant to such options are subject to a restriction against transfer for a period of twelve months after acquisition by the employee. The fair value of each option grant is estimated on the date of grant using the Black-Sholes option pricing model with the following assumptions used for grants in 2000 and 1999, respectively: risk-free interest rates of 6.59% and 4.9%; expected dividend yields of 5.3%; expected lives of 5 years; and expected volatility of 53% and 35%.

In September 1997, the Company amended its deferred compensation plan for its directors. Under the terms of the amended plan, directors may elect to receive their directors' fees in common shares of the Company or in cash upon either attaining age 70 or retirement from the board of directors. As of December 31, 2000, 16,278 common shares of the Company had been reserved for issuance under this plan.

NOTE G - SHAREHOLDER RIGHTS PLAN

On April 20, 2000, the Company's Board of Directors adopted a Rights Agreement and declared a dividend of one preferred share purchase right ("Right") for each outstanding share of common stock, $1.00 par value. Each Right entitles the shareholder to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock of the Company at an exercise price of $85.00 per share, subject to adjustment. The Rights become exercisable in the event that a person or group acquires, or commences a tender or exchange offer to acquire, more than 10% of the Company's outstanding common stock. In that event, each Right will entitle the holder, other than the acquiring party, to purchase a number of common shares of the Company having a market value equal to two times the Right's exercise price. If the Company is acquired in a merger or other business combination at any time after the Rights become exercisable, the Rights will entitle the holder to purchase a certain number of shares of common stock of the acquiring company having a market value equal to two times the Right's exercise price. The Rights are redeemable by the Company at a redemption price of $.01 per Right at any time before the Rights become exercisable. The Rights will expire on April 19, 2010, unless previously redeemed.

NOTE H - MERGER OF THE COMPANY AND PITTSFIELD AQUEDUCT COMPANY

On January 30, 1998, Pittsfield was merged with and into the Company through the issuance of 49,428 shares of Pennichuck Corporation which were exchanged for substantially all of the outstanding common shares of Pittsfield. The merger was accounted for as a pooling-of-interests.

NOTE I - BUSINESS SEGMENT INFORMATION

Pennichuck Corporation's operating activities are grouped into three primary business segments as follows:

Water utility - Involved in the collection, treatment and distribution of potable water for domestic, industrial, commercial and fire protection service in the City of Nashua and certain surrounding communities in southern and central New Hampshire.

Real estate - Involved in the ownership, development, management and sale of industrial and residential property in Nashua and Merrimack, New Hampshire.

Contract operations and other - Includes the contract operations and laboratory testing activities of the Service Corporation and sundry activities of the Company.

The tables below present information about Pennichuck Corporation's three primary business segments for the years ended December 31, 2000, 1999 and 1998.

	2000	1999	1998
Operating revenues:			
Water utility	$15,963,540	$16,331,633	$14,972,347
Real estate	6,989,006	860,103	1,909,793
Contract operations & other	718,930	617,522	512,654
Total operating revenues	$23,671,476	$17,809,258	$17,394,794
Operating income:			
Water utility	$4,349,211	$5,326,362	$5,073,615
Real estate	4,632,404	591,887	489,940
Contract operations & other	234,305	157,655	155,569
Total operating income	$9,215,920	$6,075,904	$5,719,124
Capital additions:			
Water utility	$7,735,483	$6,717,877	$11,208,746
Real estate	--	--	--
Contract operations & other	4,833	17,308	70,069
Total capital additions	$7,740,316	$6,735,185	$11,278,815
Identifiable assets:			
Water utility	$73,547,121	$68,337,550	$62,392,754
Real estate	4,053,620	4,243,177	3,666,320
Contract operations & other	5,279,265	3,000,117	4,779,107
Total identifiable assets	$82,880,006	$75,580,844	$70,838,181

NOTE I - BUSINESS SEGMENT INFORMATION CONTINUED

Depreciation and amortization expense:			
Water utility	$2,225,329	$2,068,180	$1,792,739
Real estate	912,221	--	80,833
Contract operations & other	34,216	73,587	62,009
Total depreciation and amortization expense	$3,171,766	$2,141,767	$1,935,581

The operating revenues within each business segment are sales to unaffiliated customers. Operating income is defined as segment revenues less operating expenses including allocable Parent Company expenses attributable to each business segment as shown below.

	2000	1999	1998
Allocated parent expenses:			
Water utility	$522,231	$477,156	$416,106
Real estate and other	39,307	41,491	21,635
Total allocated parent expenses	$561,538	$518,647	$437,741

Within the water utility business segment, one customer accounted for over 10 percent of total operating revenues. During 2000, 1999, and 1998, the water utility recorded $1,745,000, $1,784,000 and $1,726,000, respectively, in water revenues which were derived from fire protection and other billings to the City of Nashua.

NOTE J - QUARTERLY FINANCIAL DATA (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands of dollars, except per share amounts)			
2000				
Operating Revenues	$4,135	$4,453	$5,945	$9,138
Operating Income	1,197	1,383	2,516	4,120
Net Income	460	596	1,150	1,477
Basic Earnings Per Share	$.26	$.34	$.65	$.83
1999				
Operating Revenues	$3,892	$4,710	$5,131	$4,076
Operating Income	1,177	1,722	1,897	1,280
Net Income	456	777	870	513
Basic Earnings Per Share	$.26	$.45	$.50	$.29
1998				
Operating Revenues	$2,916	$3,973	$6,404	$4,102
Operating Income	849	1,411	2,385	1,074
Net Income	236	510	1,049	311
Basic Earnings Per Share	$ .19	$ .42	$ .85	$.15

MARKET AND DIVIDEND INFORMATION

MARKET & DIVIDEND INFORMATION

The Company's common stock is currently traded on the Nasdaq National Market System ("NMS") under the symbol "PNNW".

On December 31, 2000, there were approximately 850 holders of record of the 1,769,736 shares of the Company's common stock outstanding. The following table sets forth the comparative market prices per share of the Company's common stock based on the high and low closing sales prices as reported on the Nasdaq NMS during the applicable periods and the dividends declared by the Company during those periods. All amounts have been restated for the three for two stock split effected on September 1, 1998.

	High	Low	Dividends Declared
2000			
Fourth Quarter	$28.50	$23.75	$.25
Third Quarter	28.00	24.00	.24
Second Quarter	30.25	22.00	.24
First Quarter	33.00	20.88	.24
1999			
Fourth Quarter	$34.00	$24.00	$.24
Third Quarter	29.00	22.00	.23
Second Quarter	22.63	19.31	.23
First Quarter	21.75	19.63	.22
1998			
Fourth Quarter	$22.00	$19.00	$.22
Third Quarter	20.50	15.00	.19
Second Quarter	16.00	15.00	.19
First Quarter	16.00	12.00	.19

ANNUAL MEETING AND SHAREHOLDER INFORMATION

Pennichuck Corporation's Annual Shareholder's Meeting will be held at 3:00 p.m. on Thursday, April 19, 2001, at the Nashua Marriot Hotel, 2200 Southwood Drive in Nashua, New Hampshire.

Shareholder Relations: Pennichuck Corporation, 4 Water Street, PO Box 448, Nashua, NH 03061-0448, Attn: Shareholder Relations. Tel: 603/882-5191.

Stock Transfer Agent and Registrar: EquiServe, Limited Partnership, Shareholder Services Department, 150 Royall Street, Canton, MA 02021, 781/575-3001, www.equiserve.com.

Dividend Reinvestment and Common Stock Purchase Plan: Pennichuck Corporation has a Dividend Reinvestment and Common Stock Purchase Plan which is open to all holders of Pennichuck's common shares and to all of Pennichuck's New Hampshire residential customers. Participants in the Plan receive their dividends in the form of Pennichuck common shares and may also, within certain limits, make additional cash purchases under the Plan. For a copy of the Plan Prospectus and an enrollment form, please call Shareholder Relations.

Pennichuck Corporation
4 Water Street
P.O. Box 448
Nashua, NH 03061-0448
800.553.5191
603.882.5191
Fax 603.882.4125
www.pennichuck.com

4370-AR-

Federal Income Tax Reconciliation
Pennichuck East Utility, Inc.
December 31, 2004

Provided pursuant to NHPUC Rule 1604.01(3)

Net income per books for the test year ended December 31, 2004	$	94,625
Addback provision for Federal and State income taxes		62,065
Pretax Book Income		156,690
Estimated Schedule M-1 Items:		
Depreciation on AFUDC		-
AFUDC		-
Depreciation on Pre-1987 CIAC		-
Excess FAS 106 expense (Post-retirement benefits)		-
Excess FAS 87 funding (Pension)		-
Accelerated depreciation		(1,071,474)
Amortization of CIAC		(70,597)
Miscellaneous studies, net		(1,876)
Sarbanes-Oxley costs		-
Other		-
Deferred compensation		-
Total Permanent & Temporary Differences		(1,143,947)
Subtotal		(987,257)
Addback bonus depreciation		517,855
NH Taxable Income		(469,402)
NHBPT @ 8.50%		(39,899)
Total NH State tax		(39,899)
Federal taxable income	$	(947,358)

Computation of Detailed Tax Factor
Pennichuck East Utility, Inc.
December 31, 2004

Provided pursuant to NHPUC Rule 1604.01(4)

New Hampshire Business Profits Tax in effect during test year ended December 31, 2004	8.50%
After-tax cost of NHBPT based on an applicable Federal tax rate of 34 percent computed as follows: 1.00 minus .34 = .66 times 8.5%	5.61%
Applicable Federal tax rate in effect during test year ended December 31, 2004	34.00%
Effective combined income tax factor	39.61%

Pennichuck East Utility, Inc.
Charitable Contributions
For the Twelve Months Ended December 31, 2004

Donee	Amount
Raymond Parks & Rec	60.00
Raymond Youth Bball Assoc	50.00
	110.00

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

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

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

(7) Cost of Service Study – None.

Projected Capital Budget Program					
Pennichuck East Utility, Inc.					
2005 Through 2008					
(In thousands of dollars)					
					Four Year
	2005	**2006**	**2007**	**2008**	**Total**
Supply & Watershed:					
W&E Well Replacement	205	714	-	-	919
Pelham Tank	780	-	-	-	780
New Wells - Ave. 2 per year	45	90	90	90	315
Various CWS Station upgrades	39	40	40	40	159
Atmospheric Tank Replacements - Ave. 1 per yı	61	55	55	55	226
Well/Booster Pump Replacements	20	25	25	25	95
Supply & Watershed	**1,150**	**924**	**210**	**210**	**2,494**
Treatment Improvements:					
Arsenic Removal System - Avery/Farmstead	254				254
Various Treatment Upgrades/Replacements	24	-	75	75	174
Treatment Improvements	**278**	**-**	**75**	**75**	**428**
Distribution & Storage:					
Distribution Department	123	325	325	325	1,098
Radio Program	22	22	22	22	88
Water Main Upsizing	40	40	40	40	160
One Times Revenue Contribution	80	80	80	80	320
MSDC charges	180	-	-	-	180
Distribution & Storage	**445**	**467**	**467**	**467**	**1,846**
Grand Total	**$ 1,873**	**$ 1,391**	**$ 752**	**$ 752**	**$ 4,768**

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

(9) Chart of Accounts – No Difference.

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

FORM 10-K

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

For The Fiscal Year Ended December 31, 2004

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)

New Hampshire	**02-0177370**
(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: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $1.00 per share
(Title of Class)
Preferred Stock Purchase Rights
(Title of Class)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2): Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of the registrant, based on the closing sale price of the Company's common stock on June 30, 2004, as reported on the Nasdaq National Market was $62,729,906. For purposes of this calculation, the "affiliates" of the registrant include its directors and executive officers. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

The number of shares of the registrant's common stock, $1 par value, outstanding as of March 24, 2005 was 2,415,147.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part III of this report is incorporated by reference to the registrant's definitive Proxy Statement for its 2005 annual meeting of the registrant's shareholders filed with the Commission.

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PART I

Item 1. BUSINESS

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

Overview

We are engaged primarily in the collection, storage, treatment and distribution of potable water in southern and central New Hampshire. We have three business segments: regulated water utilities, non-regulated water management services and real estate development and investment. Water utility revenues constituted 85% of our consolidated revenues in 2004. We are headquartered in Merrimack, New Hampshire, which is located approximately 45 miles north of Boston, Massachusetts. Pennichuck Corporation was incorporated in New Hampshire in 1983.

Our Strategy

Our mission is to be a leading supplier of quality, safe drinking water and water-related services in New England and to achieve sustainable growth in our revenues and earnings by:

Investing in our regulated water utilities to maintain reliable, high quality service. To maintain our position as a respected water supplier, we will make ongoing capital investments to meet or exceed the applicable regulatory requirements and to maintain our infrastructure.

Acquiring additional small and mid-size water systems in New Hampshire and nearby portions of Maine, Massachusetts and Vermont. We believe there remain significant opportunities to grow our customer base in New Hampshire and nearby portions of Maine, Massachusetts and Vermont. We estimate that there are a total of 1,850 water systems in those target areas. We expect that increasingly stringent regulation, the resulting increase in capital requirements and the need for skilled operators will continue to cause system owners to consider selling their water systems or outsourcing the management of their systems.

Expanding our water management business with a focus on servicing small and mid-size water systems, where we believe we can leverage our capital resources as well as our operating and technical expertise. Service Corporation's strategy calls for a focus on segments in which it can provide high-quality service in a cost-effective manner. These segments include small and mid-size municipal utilities, small systems such as community water systems and non-transient, non-community water systems.

Developing our water management business by establishing one or more regional operations centers and then targeting growth opportunities that may be serviced from those centers. In order to service new customers effectively, we must have staff close to those customers. Accordingly, Service Corporation will develop its business around geographic hubs — business centers of sufficient size to support at least a limited full time staff. Building Service Corporation's business in the surrounding area will be part of the staff's job description. We currently plan to pursue opportunities through five potential New Hampshire hubs that correspond roughly to Nashua, coastal New Hampshire, Lakes Region, western New Hampshire and the Conway region as well as hubs in the neighboring states of Maine, Massachusetts and Vermont.

Pursuing acquisitions of large water systems to expand into new geographic markets in the northeastern United States. An important and new element of our strategic plan is to seek to expand into new geographic markets in the northeastern United States by acquiring one or more large water systems. We expect to focus on systems that have sufficient scale to warrant establishing and maintaining a management presence in a new market. These systems will likely be significantly larger than the small and mid-size water systems that we are targeting nearby our existing service areas. We do not expect, however, that these larger systems will be substantially larger than Pennichuck. We believe there are a number such large water systems in the northeastern United States that are potentially attractive acquisition opportunities. We anticipate that this large water system segment within the U.S. water utility industry will continue to consolidate, as system owners, whether investor-owned utilities or municipalities, facing increasingly stringent regulation and the resulting increase in capital requirements, consider acquisitions by other companies. The pace at which acquisition opportunities will arise is, of course, unpredictable.

Water Utility Business

Overview. Three of our subsidiaries are water utilities engaged in the collection, storage, treatment, distribution and sale of potable water in southern and central New Hampshire, subject to the jurisdiction of the New Hampshire PUC:

- Pennichuck Water Works, Inc. ("Pennichuck"), our principal subsidiary, was established in 1852 and services the City of Nashua, New Hampshire and 10 surrounding New Hampshire municipalities west of the Merrimack River with an estimated population of 110,000, almost 10% of the population of the State of New Hampshire.;
- Pennichuck East Utility, Inc. ("Pennichuck East") was organized in 1998 and serves 11 communities most of which are located in southern and central New Hampshire east of the Merrimack River; and
- Pittsfield Aqueduct Company, Inc. ("Pittsfield"), which we acquired in 1998, serves customers in and around Pittsfield, New Hampshire.

The City of Nashua is engaged in ongoing efforts that began in 2002 to acquire through an eminent domain proceeding all or a significant portion of Pennichuck's assets. The eminent domain proceeding and its effects on us are described elsewhere in this report. See "—Ongoing Eminent Domain Proceeding", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 3.

Service Areas. Pennichuck is franchised by the New Hampshire PUC to distribute water in the City of Nashua, New Hampshire and in portions of the towns of Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Plaistow and Salem, New Hampshire. Pennichuck's transmission mains extend from Nashua into portions of the surrounding towns of Amherst, Hudson, Merrimack and Milford. We also own and operate three stand-alone systems in Milford. Its franchises in the remaining towns consist of stand-alone satellite water systems. Pennichuck has no competition in its core franchise area, other than from customers using their own wells. Pennichuck serves approximately 25,000 customers, and its 2004 revenues totaled $16.0 million.

Pennichuck East was organized in 1998 to acquire certain water utility assets from the Town of Hudson, New Hampshire following the Town's acquisition of those assets from an investor-owned water utility which previously served Hudson and surrounding communities. Pennichuck East is franchised to distribute water in portions of the New Hampshire towns of Litchfield, Pelham, Windham, Londonderry, Derry, Plaistow, Sandown, Atkinson, Raymond, Bow and Hooksett, which are near the areas served by Pennichuck. Pennichuck East has no commercial competition in its core franchise area. The water utility assets owned by Pennichuck East consist principally of water transmission and distribution mains, hydrants, wells, pump stations and pumping equipment, water services and meters, easements and certain tracts of land. Pennichuck East serves approximately 4,600 customers and annual water revenues were approximately $3.1 million for calendar year 2004.

Pittsfield was acquired by the Company in 1998 and serves approximately 640 customers in and around Pittsfield, New Hampshire with annual water revenues of approximately $473,000 for calendar year 2004. Pittsfield has no competition in its franchise area.

In January 2005, we entered into an agreement to acquire three water systems in the Lakes Region and central part of New Hampshire: the Locke Lake water system in Barnstead, the Birch Hill water system in Conway and the Sunrise Estates water system in Middleton, New Hampshire. We expect that the newly acquired water systems will become part of our Pittsfield subsidiary. The acquisition, which is our largest since 1998, is subject to completion of our due diligence and the approval of the New Hampshire PUC. We expect the acquisition to close by the end of 2005.

Water Supply Facilities. Pennichuck's principal properties are located in Nashua, New Hampshire, except for portions of our watershed or buffer land which are located in the neighboring towns of Amherst, Merrimack and Hollis, New Hampshire. In addition, Pennichuck owns four impounding dams which are situated on the Nashua and Merrimack border.

The primary source of potable water for our core Pennichuck system is the Pennichuck Brook, Holt Pond, Bowers Pond, Harris Pond and Supply Pond in the Nashua area that together can hold up to 500 million gallons of water. We supplement that source during the summer months by pumping water from the adjacent Merrimack River. Pennichuck can deliver up to 31.2 million gallons per day, or mgd, into the distribution system. By comparison, Pennichuck's peak month, which occurred in June 1999, had an average daily demand for that month of 21.2 mgd.

We own a water treatment plant in Nashua that uses a combination of physical and chemical removal of suspended solids and sand and carbon filtration to treat the water that Pennichuck supplies. The plant has a rated capacity of 35.0 mgd. The plant's capacity will not be affected by the upgrade described elsewhere in this prospectus.

We own a raw water intake and pumping facility located on the Merrimack River in Merrimack, New Hampshire. This supplemental water supply provides an additional source of water during summer periods and will provide a long-term supply for Pennichuck's service area. A permit from the Army Corps of Engineers that has been extended through December 21, 2009 allows us to divert water from the Merrimack River. We may divert up to 30.0 mgd only when the river level is above 91.2 feet. When the river level is below 91.2 feet, Pennichuck may divert up to 20.0 mgd if a specified minimum flow is maintained and up to 12.0 mgd if flow falls below this minimum. Our existing pumping facility on the Merrimack River is capable of providing up to 16.2 mgd, and as part of our 2005 to 2008 capital expenditures program discussed elsewhere in this prospectus, we plan to install new pumps that will increase our pumping capacity to 21.0 mgd.

We also own approximately 672 acres of land located in Nashua and Merrimack, New Hampshire that are held for watershed and reservoir purposes.

We own 11 water storage reservoirs having a total storage capacity of 20.7 million gallons, six of which are located in Nashua, two in Amherst, one in Bedford, one in Derry and one in Hollis, New Hampshire.

We own a 900,000 gallon per day gravel-packed well located in Amherst, New Hampshire.

The sources of supply for Pennichuck East consist of purchased water from the Manchester Water Works, a well system owned by the Town of Hudson, in Litchfield, New Hampshire, and individual bedrock wells. Pennichuck East has entered into long-term water supply agreements to obtain water from the Manchester Water Works and Hudson. The terms of our Manchester supply contract are described elsewhere in this report. See Item 7. We have an agreement with Hudson, which expires in 2017, that allows us to pump up to 283,500 gallons per day from its wells at a cost equal to the variable cost of production or operation associated with the system as a whole or any of its components. Hudson will charge us a higher rate for water pumped in excess of the 283,500 gallons allowed per day.

Pittsfield's sole source of supply is Berry Pond, which holds approximately 97.8 million gallons. Pittsfield owns the land surrounding Berry Pond, and it treats the water from this pond through a 0.5 mgd water filtration plant located in Pittsfield, New Hampshire.

Water Distribution Facilities. As of December 31, 2004, the distribution facilities of the Company's regulated water companies consisted of, among other assets, the following:

	Pennichuck	Pennichuck East	Pittsfield
Transmission & distribution mains (in miles)	418	120	13
Service Connections	24,042	4,750	636
Hydrants	2,317	438	67

Capital Expenditures. The water utility business is capital intensive. We typically spend significant sums each year for additions to or replacement of property, plant and equipment. During the 2005 to 2008 period, our capital expenditures will be particularly large as we:

- upgrade Pennichuck's Nashua water treatment plant to meet the requirements of the Interim Enhanced Surface Water Treatment Rule discussed below and other upgrades intended to comply with current and projected water quality requirements and allow for operating redundancy,
- undertake various water distribution, storage, supply, maintenance, rehabilitation and replacement projects, and
- conduct a pilot project for a proposed radio-based meter reading system.

We estimate that our projected capital expenditures during the 2005 to 2008 period will total $54.3 million in current dollars. By comparison, for the four year period 2001 to 2004, our capital expenditures were $33.1 million.

Regulation

New Hampshire PUC. The Company's water utilities are regulated by the New Hampshire PUC with respect to their water rates, financings and provision of service. New Hampshire law provides that utilities are entitled to charge rates which permit them to earn a reasonable return on the cost of the property employed in serving their customers, less accrued depreciation, contributed capital and deferred income taxes ("Rate Base"). The cost of capital permanently employed by a utility in its utility business marks the minimum rate of return which a utility is lawfully entitled to earn on its Rate Base. Capital expenditures associated with complying with federal and state water quality standards have historically been recognized and approved by the New Hampshire PUC for inclusion in our water rates, though there can be no assurance that the New Hampshire PUC will approve future rate relief in a timely or sufficient manner to cover our capital expenditures.

Pennichuck's water rates that were in effect during 2004 were based on a March 2002 New Hampshire PUC order in which Pennichuck was granted an overall permanent rate relief of 14.43% based on an overall rate of return of 8.58% and an approved rate base of approximately $43.1 million. In March 2005, we reached settlement with the New Hampshire PUC staff on our requested rate relief for Pennichuck that we filed in May 2004. A hearing on the settlement is scheduled for April 5, and we expect that the New Hampshire PUC will issue a final written decision shortly thereafter. In September 2004, the New Hampshire PUC authorized an interim annualized increase of $1.3 million effective retroactively for service rendered on and after June 1, 2004. The settlement agreement, if approved by the New Hampshire PUC, will result in a final annualized rate relief of $1.7 million, also effective as of June 1, 2004. The settlement agreement did not stipulate the overall rate of return or the approved Rate Base.

Pennichuck East is authorized an overall rate of return of 8.37% on an approved rate base of approximately $7.5 million. Pennichuck East has not filed for rate relief since our 1998 acquisition of the utility. Pennichuck

East is planning to file a request for rate relief during the second quarter of 2005. We do not expect a final decision on the rate relief until early 2006.

Pittsfield is authorized to earn an overall rate of return of 8.42% on an approved rate base of approximately $1.6 million.

Under New Hampshire law, the Company may not be acquired unless and until there is a final, non-appealable order of the New Hampshire PUC approving the acquisition. The New Hampshire PUC may approve an acquisition only if it determines that the acquisition will not have an adverse effect on rates, terms, service or operation of the utilities and is lawful, proper and in the public interest.

Water Quality Regulation. The Company's water utilities are subject to the water quality regulations issued by the United States Environmental Protection Agency ("EPA") and the New Hampshire Department of Environmental Services ("DES"). The EPA is required to periodically set new maximum contaminant levels for certain chemicals as required by the federal Safe Drinking Water Act. The quality of the Company's water utilities' treated water currently meets or exceeds all current standards set by the EPA and the DES.

Pennichuck's filtration plant in Nashua is impacted by the Interim Enhanced Surface Water Treatment Rule, which established a new turbidity standard of 0.3 Nephelometric Turbidity Units or NTU. Turbidity is a measure of sediment or foreign particles that are suspended in the water. Pennichuck has completed its evaluation of alternatives to meet the new turbidity standard, and we expect it will complete the design of the modifications required to its filtration plant by the end 2005.

The Merrimack River is nutrient-rich, which in the past, under certain environmental conditions, has caused algae formation in our holding ponds. As a result, we did not meet the monthly standards for turbidity in August 2001. Since then, we have been in compliance with the turbidity standards. We expect that various planned upgrades to our water treatment plant will allow us maintain compliance with the turbidity standards even if similar environmental conditions occur again in the future.

Three of Pennichuck's small community water systems have wells that produce water with arsenic levels in excess of the new standard of 10 parts per billion. Pennichuck will be installing arsenic treatment systems at these locations in 2005. Pennichuck's and Pennichuck East's remaining community water systems have wells that produce water meeting the new arsenic standard.

Water Management Services

We complement our water utility business by providing non-regulated, water-related monitoring, maintenance, testing and compliance reporting services for water systems for various towns, businesses and residential communities primarily in southern and central New Hampshire. We conduct this business through our subsidiary Pennichuck Water Service Corporation ("Service Corporation"). The communities in which Service Corporation manages water systems are depicted on the map referenced on the inside front cover of this prospectus.

Service Corporation activities include providing contract operations and maintenance, water testing and billing services to municipalities and small, privately owned community water systems.

Municipalities. In 1998, Service Corporation entered into a long-term agreement with the Town of Hudson to provide operations and maintenance contract services to the Town with respect to the water utility assets the Town acquired from an investor-owned water utility. In September 2001, Service Corporation entered into a long- term agreement with the Town of Salisbury, Massachusetts to perform similar operations and maintenance services. During 2004, Service Corporation provided such services pursuant to 67 operating contracts.

Non-transient, non-community water systems. The DES has mandated water quality standards for non-transient, non-community water systems – defined as public facilities such as schools, apartment and office buildings accommodating more than 25 persons and served by a community well. There are an estimated 600 such systems in New Hampshire which will require the services of a certified water operator, such as Service Corporation, in order to meet the mandates of the DES. Accordingly, Service Corporation is actively pursuing new contracts under which it would serve as a certified water operator and provide various water-related monitoring, maintenance, testing and compliance reporting services for these systems in New Hampshire.

Competition. In marketing its services to municipalities, Service Corporation must address competition from incumbent service providers, including municipal employees, and a reluctance by municipalities to outsource water management to an investor-owned company. For contracts with nontransient, non-community water systems, Service Corporation competes primarily with engineering firms who design and build these systems.

Real Estate Development and Investment

Our subsidiary The Southwood Corporation ("Southwood") is actively engaged in real estate planning, development and management of residential, commercial, industrial and retail properties. We originally organized Southwood to develop approximately 1,490 acres of land in Nashua and Merrimack, New Hampshire that Pennichuck formerly held for watershed protection. In 1983 Pennichuck transferred most of that land to Southwood and the balance to the Company. Since 1983, Southwood has sold and/or contributed to joint ventures over 30 land projects aggregating 1,019 acres, with gross proceeds of $26.5 million.

Undeveloped Land. Southwood and the Company collectively own several parcels of developable land in Nashua and Merrimack, New Hampshire, totalling approximately 580 acres. The portfolio is comprised of 12 separate parcels ranging in size from 10.5 acres to 102 acres. Three parcels, aggregating 92 acres, are located within the City of Nashua and the remaining 9 parcels, aggregating 490 acres, are located within Merrimack. The entire portfolio of land held for future development is classified under "current use" status, resulting in a tax assessment that is based on the property's actual use and not its highest or best use.

During the next several years, Southwood expects to pursue the permitting and other land use approvals necessary to realize the value of the remaining 580 acres. It will undertake those efforts either alone or in concert with others. It may also reinvest the proceeds from the sale of one or more parcels in other income-producing real estate in order to defer the recognition of taxes.

Developed Land and Real Estate Investments. Of the land originally transferred from Pennichuck, Southwood contributed various parcels to four joint ventures to develop the Heron Cove Office Park a 3-building, 147,000 square foot, multi-tenant office project in Merrimack, New Hampshire. Southwood has a 50% ownership interest in each of those joint ventures, which are sometimes referred to in this prospectus as HECOP I-IV. HECOP I, II and III own commercial office buildings. HECOP IV owns a nearby 9.1 acre parcel that has been approved for the construction of commercial office space. The managing partner of the HECOP joint ventures is John P. Stabile II, a local developer with whom Southwood has participated in four residential joint ventures during the past 10 years.

Southwood's investment in one or more joint ventures may be jeopardized if the debt financing secured by the properties of those joint ventures cannot be refinanced on acceptable terms. For example, Southwood has pledged its investment in two joint ventures to secure $3.0 million of mortgage indebtedness that matures in June 2007. Southwood's investment in those joint ventures had a carrying value of $650,000 as of December 31, 2004.

The typical term of a lease for commercial office space in one of Southwood's existing joint venture properties is between three and seven years. The combined vacancy rate for the Southwood joint venture projects was 12% as of March 1, 2005.

Since 1988, Southwood had been involved in the planning and development of Southwood Corporate Park, a 65-acre commercially zoned land parcel located in Nashua, New Hampshire. From 1988 through 2001, Southwood sold four lots totaling 25 acres in the Corporate Park. In January 2002, Southwood sold the remaining 40 acres to Winstanley Enterprises, Inc. ("Winstanley"), a regional real estate developer, under the terms of an option agreement between Southwood and Winstanley. Under that 1995 agreement, Winstanley paid to Southwood an option fee each year equal to the annual carrying costs associated with that land.

In January 2003, Southwood sold approximately 67 acres to Bowers Landing of Merrimack II, LLC. At the closing on January 15, 2003, Southwood received $260,000 in cash and a promissory note in the amount of $1,224,000. The note was scheduled to mature on October 16, 2005, but at the borrower's election, was repaid in full on October 15, 2004.

On January 3, 2005, Southwood completed the sale of a 58 acre parcel of land that was first placed under contract in 2001. The purchase price was $570,000.

Financial Information About Industry Segments

Our business segment data for the latest three years is presented in "Note 12 – Business Segment Information" in the Notes to the Consolidated Financial Statements included in this prospectus.

Properties

We own a building in Nashua which serves as an operations center and storage facility for our construction and maintenance activities.

In April 2004, Pennichuck entered into a long-term lease arrangement with HECOP III for approximately 13,000 square feet of office space located in Merrimack, New Hampshire which serves as our headquarters. Southwood and John P. Stabile II each own a 50% interest in HECOP III.

Our properties used in our water utility business are described elsewhere in this prospectus. See "—Water Utility Business," above.

Our properties used in our real estate business are primarily described elsewhere in this prospectus. See "—Real Estate Development and Investment," above.

Southwood also has a 60% ownership in Westwood Park LLC, a consolidated joint venture formed in 1997 to develop a tract of land in northwest Nashua. In 2001 and 2002, Westwood sold three substantial parcels of land for an aggregate sales price of approximately $7.5 million. Westwood's remaining holdings are comprised of two parcels of land aggregating approximately 52 acres, which were retained from such sales for potential use as a potable water wellfield and distribution site and are not likely usable for conventional development. There is no plan to sell either parcel.

Except as noted in "Note 3 – Debt" in the accompanying Notes to the Consolidated Financial Statements, there are no mortgages or encumbrances on our properties.

Employees

We employ 88 full-time employees and officers, nearly all of whom are Pennichuck employees. Of these, there are 48 management and clerical employees who are non-union. The remaining employees are members of the United Steelworkers Union. The current union contract, which was re-negotiated in February 2002, expires in February 2007. We believe that our employee relations are satisfactory.

Ongoing Eminent Domain Proceeding

Overview. The City of Nashua is engaged in ongoing efforts that began in 2002 to acquire all or a significant portion of Pennichuck's assets through an eminent domain proceeding under New Hampshire Revised Statutes Annotated Chapter 38. Whether the City will ultimately be permitted to acquire our assets and, if so, the compensation that the City would have to pay us for those assets are highly uncertain and will likely involve protracted proceedings before the New Hampshire PUC. New Hampshire law does not require that our board of directors or shareholders ratify or approve any such forced sale of assets or the compensation that Pennichuck would receive if the City proceeds with the taking after approval by the New Hampshire PUC. We have vigorously opposed the City's efforts to acquire our assets by eminent domain and intend to continue to do so. Our eminent domain-related expenses have been, and are expected to continue to be, significant.

Background. We entered into an agreement in April 2002 to be acquired in a merger with Aqua America Inc. (formerly known as Philadelphia Suburban Corporation). Our shareholders would have received, based upon the value of Aqua America shares at the time the merger was announced, 1.387 shares of Aqua America for each of our shares, representing a value per share of $33.00. 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 of Nashua to acquire our assets by eminent domain.

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

In November 2003, the City of Nashua made a proposal to purchase all of our assets for a purchase price of $121 million. The offer was subject to various conditions, including the City's completion of a municipal bond offering to fund the purchase price. The City claimed that its proposal exceeded by $15 million the approximate value that our shareholders would have received under the proposed Aqua America merger at the time that transaction was first announced. The City asserted that the difference would offset the corporate taxes that Pennichuck would incur in a sale of assets to the City. In December 2003, our board of directors unanimously rejected the City's proposal. At that time, we publicly stated that our board had concluded that the City's proposal was inadequate and not in the best interests of our shareholders, significantly underestimated the value of our assets and failed to recognize both the underlying value of our shares and the potential tax liabilities that would result from the proposed transaction. We also stated that we believed that the City's proposal failed to make allowances for assuming our long-term debt and other liabilities, which at the time totaled approximately $27.2 million.

The City's 2003 proposal is not necessarily indicative of the valuation that would be assigned to our assets by the New Hampshire PUC nor does is necessarily reflect a price that the City might be willing to pay for our assets at this time. The City's proposal purported to cover all of our assets. The City has not renewed its 2003 proposal.

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

Issues to be Presented to the New Hampshire PUC. The New Hampshire PUC has not set a schedule for the eminent domain proceeding. We do not expect the New Hampshire PUC to rule definitively on the City's petition before late 2006. Given the highly integrated nature of Pennichuck's system and the significant interests of other communities in Pennichuck's service area, we expect that the New Hampshire PUC will have to address a number of unprecedented issues related to Pennichuck's assets and operations outside the City of Nashua. These issues could have an effect on any New Hampshire PUC determination regarding (i) whether a taking of Pennichuck's assets by eminent domain would be in the public interest, including the portion of the Pennichuck assets that could be taken by eminent domain, and (ii) the amount of compensation that would have to be paid to Pennichuck if the City acquired any of its assets by eminent domain.

The January 2003 referendum approved by the voters of Nashua creates a statutory presumption that an eminent domain taking is in the interest of the residents of Nashua. We believe, however, that it may be possible for us to overcome that presumption and that under New Hampshire law the referendum is irrelevant to the issue of whether the City should be permitted to acquire any of Pennichuck's assets that are not necessary to serve Nashua customers.

Uncertainty Regarding Compensation to Pennichuck. If the City were successful in acquiring any of Pennichuck's assets in an eminent domain proceeding, it is highly uncertain what valuation methodologies would be used in determining the compensation the City would have to pay to Pennichuck in exchange for taking these assets by eminent domain. The total compensation awarded would comprise the value to be paid for the Pennichuck assets and the additional consequential damages, if any, caused by the severance of the plant and property proposed to be purchased from Pennichuck's other plant and property. In addition, we believe that we would have a legal basis to seek compensation for the related harm to Pennichuck's affiliated companies, including Service Corporation and our utility subsidiaries. There can be no assurance, however, that we will be successful in obtaining damages based upon the effect of a taking on our other utilities.

If the New Hampshire PUC determines that a taking of Pennichuck assets by the City is in the public interest, then we believe it is likely to consider five valuation methodologies in determining the compensation to be paid to Pennichuck for its assets:

- current replacement cost less depreciation,
- capitalized earnings (i.e., a discounted cash flow method),
- comparable sales,
- original cost less depreciation (sometimes referred to as net book value), and
- cost of alternative facility capable of delivering utility service.

Although these five methodologies are not expressly required by statute, in cases involving the valuation of utility property for purposes of property tax assessments, New Hampshire courts have recognized that all of these approaches to valuation should be given consideration. However, there is no express requirement that the ultimate determination of value be based on any one or more of these methods, and the New Hampshire PUC may give weight to any one or more of them depending on the circumstances. Moreover, the New Hampshire PUC may decide to use different methodologies to value different asset categories. The choice of methodology may also depend on the scope of the assets to be taken.

Methodologies for determining the value of assets and the amount of damages suffered as a result of eminent domain takings by public utility commissions in other states may not be indicative of the methodologies that will be used by the New Hampshire PUC, because such determinations are dependent on the particular facts and circumstances of each case.

Right to Appeal. Pennichuck or the City would have the right to appeal directly to the New Hampshire Supreme Court any order issued by the New Hampshire PUC in the eminent domain proceeding. However, the Supreme Court would overturn an order by the New Hampshire PUC only if it is demonstrated that the New Hampshire PUC has made an error of law or, by a clear preponderance of the evidence, that a factual or policy determination by the New Hampshire PUC was contrary to law, unjust or unreasonable. The New Hampshire Supreme Court applies a presumption of reasonableness to factual determinations by the New Hampshire PUC.

Certain Tax Considerations. If the City of Nashua acquires for cash in an eminent domain proceeding any of Pennichuck's assets, Pennichuck would be taxed as if it had willingly sold those assets to the City. Unless we are able to utilize a special nonrecognition provision discussed below, we would recognize gain for federal income tax purposes equal to the excess of the aggregate value Pennichuck receives for each asset less its adjusted cost basis in those assets. The aggregate adjusted tax basis of Pennichuck's assets is significantly less than the aggregate adjusted book value of those assets as reflected in our Consolidated Financial Statements appearing elsewhere in this prospectus. The difference exists primarily because the rate at which we depreciate Pennichuck assets for federal income tax purposes is greater than the depreciation rate that we use for financial reporting purposes. Therefore, if the New Hampshire PUC were to value our assets using a methodology that results in a value equal to or greater than our adjusted book value, for example, the taxable gain that we would recognize from such sale would likely be material to us. If we then distributed the cash proceeds from such sale to our shareholders, another tax would be triggered at the shareholder level, with shareholders generally being taxed at a rate of 15% on the portion of the cash received.

It may be possible for Pennichuck to defer the recognition of gain on the deemed sale of the assets if within a certain time period it reinvests the amount received from the sale in property that is similar or related in service or use to the property acquired by the City of Nashua. The rules for replacing real property under these circumstances are less stringent than the rules for replacing personal property. To the extent that some of the assets subject to sale are determined under state and local law to be personal property and not real property, Pennichuck will be more limited in its options for locating suitable replacement property for these assets and, thus, less likely to defer any potential tax at the corporate level. There can be no assurance that Pennichuck would be successful in deferring a recognition of all or any of the taxable gain by reinvesting the proceeds in replacement property.

This description of certain tax consequences of an eminent domain taking by the City does not purport to constitute tax advice to any holder of our common stock. Each holder is urged to consult his, her or its own tax advisor as to the specific tax consequences of an eminent domain taking to the holder, including the application and effect of foreign, state and local income and other tax laws.

City May Not Proceed with Acquisition. In an eminent domain scenario, the City would not be bound to proceed with the acquisition until ratified by a vote of two-thirds of Nashua Board of Alderman. In addition, we expect that the City would need to incur debt financing to fund the purchase, depending on the size of the transaction. Consequently, even if the New Hampshire PUC authorizes the City to use eminent domain to acquire any or all of Pennichuck's assets, there is no assurance that the City will proceed with the acquisition.

Our Opposition to Nashua's Efforts. Our board of directors and shareholders would not have the right to approve a forced sale of Pennichuck assets to the City in an eminent domain proceeding or the amount of damages that the city would have to pay to us as a consequence of such a taking. We have vigorously opposed the City's efforts to acquire any of Pennichuck's assets by eminent domain and intend to continue to do so. We contend, among other things, that an eminent domain taking by the City would not be in the public interest, as required by New Hampshire law. Our eminent domain related-expenses have been and are expected to continue to be significant. Our expenses in 2004 were $1.2 million. We expect that the amount of our eminent domain-related expenses in 2005 will be comparable to the amount of those expenses in 2004.

Possible Regional Water District. The City of Nashua has entered into an agreement with certain other municipalities in southern and central New Hampshire to form the Merrimack Valley Regional Water District. If the City should acquire any of Pennichuck's assets, then the City may elect to transfer such assets to the District. The District's charter provides that prior to June 1, 2005, any municipality which contains any customers of or any part of our water supply, transmission, treatment and distribution systems or which itself is one of our customers is eligible for membership in the District. In addition to the City, the municipalities currently comprising the District are Amherst, Bedford, Litchfield, Londonderry, Pelham, Raymond and Pittsfield. The District has the authority under New Hampshire law to issue bonds to fund a transfer of assets from the City, but the District does not have authority to take assets by eminent domain. The City may contend that the District's existence supports the City's contention that a taking of Pennichuck's assets by eminent domain would be in the public interest. We are unable to predict, however, what weight, if any, the New Hampshire PUC will give to the District's existence in considering the merits of the City's eminent domain petition.

Pittsfield Eminent Domain Actions. The Town of Pittsfield voted at its 2003 town meeting to acquire the assets of our Pittsfield subsidiary by eminent domain. In April 2003, the Town notified us in writing of the Town's desire to acquire the assets. We responded that we did not wish to sell the assets. Thereafter, no further action was taken by the Town until March 2005, when the Town again voted to take the assets of our Pittsfield subsidiary and also to appropriate $60,000 for the eminent domain process. On March 22, 2005, we received a letter from the Town reiterating the Town's desire to acquire the assets of our Pittsfield subsidiary. We have 60 days to formulate a response. We do not have a basis to evaluate whether the Town will actively pursue the acquisition of our Pittsfield assets by eminent domain.

RISK FACTORS

The City of Nashua's use of the power of eminent domain to acquire a significant portion of our water utility assets creates uncertainty and may result in material, adverse consequences for us and our shareholders.

We are involved in ongoing proceedings with the City of Nashua regarding the City's desire to acquire all or a significant portion of the water utility assets of Pennichuck, our principal subsidiary. The City is pursuing such acquisition pursuant to its power of eminent domain under New Hampshire law. Whether the City will ultimately be permitted to acquire our assets and, if so, the compensation that the City would have to pay us for those assets are highly uncertain and will likely involve protracted proceedings before the New Hampshire PUC. Our board of directors and shareholders would not have the right to approve a forced sale of Pennichuck assets to the city in an eminent domain proceeding or the amount of damages that the City would have to pay to us as a consequence of such a taking. If the New Hampshire PUC authorizes the City to use eminent domain to acquire any or all of Pennichuck's assets, the City would not be bound to proceed with the acquisition, and could decide not to proceed.

Given the highly integrated nature of our businesses, a forced sale of a significant portion of our water related assets may result in increased costs and operating inefficiencies borne by our remaining assets. Additionally, Service Corporation's ability to service its existing contracts, as well as pursue additional operating contracts, could be impaired. The existence of a pending eminent domain proceeding also could adversely affect Pennichuck's future prospects and result in the loss of one or more key employees.

The City has stated publicly that it would consider retaining us to manage whatever water system assets the City may acquire from Pennichuck by eminent domain. The City has received expressions of interest from us and other prospective operators. We have not decided how aggressively, if at all, we would pursue the opportunity to manage those assets, and even if we chose to pursue the opportunity aggressively, there is no assurance that we would be the successful bidder.

Our vigorous opposition to the City of Nashua's efforts to acquire our assets by eminent domain has had, and will likely continue to have, a material adverse effect on our operating results and has been, and will continue to be, a significant distraction to our management.

We have vigorously opposed the City of Nashua's efforts to acquire our assets by eminent domain and intend to continue to do so. Our eminent domain related expenses have been, and are expected to continue to be, significant. These expenses in 2003 and 2004 were $235,000 and $1.2 million, respectively. We do not expect the New Hampshire PUC to rule on the matter before late 2006. A substantial portion of our President and Chief Executive Officer's attention has been and will continue to be devoted to coordinating various aspects of our response to the City's eminent domain initiative. In addition, we expect that from time to time in the future one or more other senior officers may need to participate significantly in various aspects of our response to the City's eminent domain efforts. We cannot assure you that management's attention to the City's eminent domain initiative will not adversely affect their oversight of other aspects of our business.

Our water utility business requires significant capital expenditures, and the rates we charge our customers are subject to regulation. If we are unable to obtain government approval of our requests for rate relief, or if approved rate relief is untimely or inadequate to cover our investments, our operating results would suffer.

Our ability to maintain and meet our financial objectives is dependent upon the rates we charge our customers. These rates are subject to approval by the New Hampshire PUC. We file rate relief requests, from time to time, to recover our investments in utility plant and expenses. The water utility business is capital intensive. We typically spend significant sums each year for additions to or replacement of property, plant and equipment. Once we file a rate relief petition with the New Hampshire PUC, the ensuing administrative and hearing process may be lengthy and costly. The timing of our rate relief requests are therefore partially dependent upon the estimated cost of the administrative process in relation to the investments and expenses that we hope to recover through the rate relief to the extent approved. We can provide no assurances that any future rate relief request will be approved by the New Hampshire PUC; and, if approved, we cannot guarantee that this rate relief will be granted in a timely or sufficient manner to cover the investments and expenses for which we initially sought the rate relief.

The relatively large magnitude of the future rate relief that we expect to request in order to earn a return on our projected 2005 to 2008 capital expenditures may adversely affect our ability to obtain timely and adequate rate relief and therefore could adversely affect our ability to service the debt that we expect to incur to finance such projects.

During the 2005 to 2008 period, our capital expenditures will be particularly large as we upgrade our water treatment plant to meet more stringent federally mandated water quality standards, undertake various water distribution, storage, supply, maintenance, rehabilitation and replacement projects and conduct a pilot project for a proposed radio-based meter reading system. Our estimated capital expenditures for our water utilities during the 2005 to 2008 period are expected to total $54.3 million in current dollars. By comparison, for the four year period 2001 to 2004, our capital expenditures were $33.1 million.

Given the relatively large magnitude of our construction program, we expect that our future rate relief requests will be significant. We intend to submit one or more requests for rate relief as significant components of our capital projects are placed into service. There can be no assurance that the New Hampshire PUC will approve future rate relief in a timely or sufficient manner to cover our investments and expenses during the 2005 to 2008 period. Our ability to service the debt that we expect to incur to finance our 2005 to 2008 construction program would be adversely affected if we were unable to obtain timely and adequate rate relief relating to the capital expenditures incurred during that program.

Our ability to undertake our 2005 to 2008 capital expenditure program depends greatly on our ongoing ability to obtain external financing. If we are unable to obtain such financing on reasonable terms, so that we are unable to complete all of our capital improvements on a timely basis, our operating results could be adversely affected.

We estimate that approximately 25% to 30% of our projected capital expenditures during the 2005 to 2008 period will be financed from cash flow from our operations (after payment of dividends on common stock). We intend to fund the balance primarily by obtaining debt financing from external sources, including $50.0 million from the proposed sale of tax-exempt bonds. Some of our external financing may be obtained through subsequent equity offerings. Our ability to secure external debt financing at reasonable costs and terms depends primarily on our ability to maintain continuing access to credit under our revolving credit facility and our access to long-term debt markets. Our revolving credit facility, which we recently increased to $16.0 million, will expire on December 31, 2007. Borrowings under the facility are subject to various terms and conditions, including covenants restricting borrowing if certain specified credit ratios are not attained.

Access to long-term debt at reasonable costs and terms requires that we maintain our credit ratios at levels consistent with comparable investment grade borrowers, as well as at levels consistent with the issuance covenants contained in our existing loan agreements. Should we be unable to access long-term debt at reasonable costs and terms, our ability to finance our 2005 to 2008 capital expenditures on a timely basis could be materially impaired. In such an event, we may need to seek other forms of capital at less favorable costs and terms or defer or reduce some of our capital expenditures. Any delay in implementing capital improvements could adversely affect our ability to request and receive rate relief from the New Hampshire PUC relating to capital expenditures incurred by us.

If we are unable to pay the principal and interest on our indebtedness as it comes due or we default under certain other provisions of our loan documents, our indebtedness could be accelerated and our operating results, financial condition and cash flows could be adversely affected.

Our ability to pay the principal and interest on our indebtedness as it comes due will depend upon our current and future performance. Our performance is affected by many factors, some of which are beyond our control. We believe that our cash flow from operations and, if necessary, borrowings under our existing credit facility, will be sufficient to enable us to make our debt payments as they become due. If, however, we do not generate sufficient cash, we may be required to refinance our obligations or sell additional equity, which may be on terms that are not favorable to us. No assurance can be given that any refinancing or sale of equity will be possible when needed or that we will be able to negotiate acceptable terms. In addition, our failure to comply with certain provisions contained in our trust indentures and loan agreements relating to our outstanding indebtedness could lead to a default under these documents, which could result in an acceleration of our indebtedness.

We expect that all or substantially all of our then outstanding indebtedness would be accelerated if the City of Nashua were to acquire a significant portion of our assets; such acceleration could adversely affect our financial condition, operating results and cash flows.

Our $16.0 million revolving credit facility that we recently entered into with Bank of America provides that any indebtedness outstanding under the facility would be due upon the City of Nashua acquiring all or a material portion of Pennichuck's assets in an eminent domain proceeding. We expect that all future debt arrangements, including those that will be incurred to fund our 2005 to 2008 capital expenditure program, will provide expressly or in effect that there would be an acceleration of our indebtedness if the City acquires all or a significant portion of our assets, whether in an eminent domain proceeding or otherwise. Such an acceleration could adversely affect our financial condition and operating results if we are unable to repay such indebtedness at that time or to refinance the indebtedness on equally favorable terms and conditions.

If we are unable to manage the construction phases of our 2005 to 2008 capital expenditure program successfully, so that we are unable to complete the upgrade of our water treatment plant on a timely basis, our operating results could be adversely affected and the total amount of capital expenditures may exceed our projected capital resources.

Our significant projected capital expenditures for the 2005 to 2008 period result primarily from our need to upgrade our water treatment plant to meet federally mandated standards. The water treatment plant project will be constructed in stages. We expect that the initial stage will begin in the second half of 2005 and the project will be completed in 2008. The cost of the entire water treatment plant project is currently estimated at approximately $32 million. The following are principal risks that we believe are associated with our water treatment plant construction project:

- The price of steel, which is a significant portion of the overall cost of the water treatment plant project, may increase substantially from our current estimates, which risk we expect to bear under the terms of the construction contracts.
- There may be cost overruns resulting from change orders or other factors not linked to the price of steel that we may have to bear under the terms of the construction contracts.
- One or more significant contractors or subcontractors may encounter financial difficulties and be unable to complete their obligations under the construction contracts on a timely basis or at all.
- Capital investment cannot be included in rate relief until the project is in service. Therefore, the timing of rate relief will be adversely affected if construction problems or other factors delay the operation of new plant components.

If we are unable to successfully manage the construction phases of our 2005 to 2008 capital expenditure program, so that we are unable to complete the upgrade of our water treatment plant on time to comply with federal standards, our operating results could be adversely affected, and the total amount of capital expenditures during the period may exceed our projected capital resources. If mismanagement is determined to have resulted in cost overruns, then the New Hampshire PUC may not allow recovery for all of the costs associated with the project.

We have restrictions on our ability to pay dividends. There can also be no assurance that we will continue to pay dividends in the future or, if dividends are paid, that they will be in amounts similar to past dividends.

The terms of our debt instruments impose conditions on our ability to pay dividends. Our earnings, financial condition, capital requirements, applicable regulations and other factors, including the timeliness and adequacy of rate relief, will determine both our ability to pay dividends on our common stock and the amount of those dividends. We have paid dividends on our common stock each year since 1856, but there can be no assurance that we will continue to pay dividends in the future or, if dividends are paid, that they will be in amounts similar to dividends that we have paid in recent periods.

The loss of a significant commercial or industrial customer can and has adversely affected our operating results and cash flows.

Our revenues will decrease, and such decrease may be material, if a significant commercial or industrial customer terminates or materially reduces its use of our water. Approximately $4.5 million, or 23.5%, of our 2004 water utility revenues was derived from commercial and industrial customers. We recently lost an industrial customer that accounted for $156,000 of revenues in 2004 when its plant in our service area ceased operations. Our largest customer is an Anheuser Busch ("AB") bottling plant located in Merrimack, New Hampshire. We recently renewed a contract with AB providing for a supply of up to 3.0 million gallons per day for a term of ten years. We estimate that our 2005 revenues from AB will be $850,000. If AB or any other large commercial or industrial customer reduces or ceases its consumption of our water, we may seek New Hampshire PUC approval to increase the rates of our remaining customers to recover any lost revenues. There can be no assurance, however, that the New Hampshire PUC would approve such a rate relief request, and even if it did approve such a request, it would not apply retroactively to the date of the reduction in consumption. The delay between such date and the effective date of the rate relief may be significant and adversely affect our operating results and cash flows.

We are subject to federal, state and local regulation that may impose significant limitations and restrictions on the way we do business.

Various federal, state and local authorities regulate many aspects of our business. Among the most important of these regulations are those relating to the quality of water we supply our customers. These laws require us to obtain various environmental permits from environmental regulatory agencies for our operations and to perform water quality tests that are monitored by the U.S. Environmental Protection Agency, or EPA, and the New Hampshire Department of Environmental Services, or DES, for the detection of certain chemicals and compounds in our water. We could be fined or otherwise sanctioned by regulators for non-compliance with these laws, regulations and permits. In addition, government authorities continually review these regulations, particularly the drinking water quality regulations and may propose new or more restrictive requirements in the future. If new or more restrictive limitations on permissible levels of substances and contaminants in our water are imposed, we may not be able to adequately predict the costs necessary to meet regulatory standards. If we are unable to recover the cost of implementing new water treatment procedures in response to more restrictive water quality regulations through the rates we charge our customers, or if we fail to comply with such regulations, it could have a material adverse effect on our financial condition and operating results.

An important element of our growth strategy is the acquisition of water systems. Any pending or future acquisitions we decide to undertake will involve risks.

The acquisition and integration of water systems is an important element in our growth strategy. This strategy depends on identifying suitable acquisition opportunities and reaching mutually agreeable terms with acquisition candidates. The negotiation of potential acquisitions as well as the integration of acquired businesses could require us to incur significant costs and resources. Further, acquisitions may result in dilution for the owners of our common stock, our incurrence of debt and contingent liabilities and fluctuations in quarterly results. In addition, the businesses and other assets we acquire may not achieve the financial results that we expected.

The current concentration of our business in southern and central New Hampshire makes us susceptible to any adverse development in local regulatory, economic, demographic, competitive and weather conditions.

Our core service area, which accounted for 62% of our 2004 consolidated revenues, comprises Pennichuck's franchise in the City of Nashua, New Hampshire and portions of the surrounding towns of Amherst, Hollis and Merrimack. Our revenues and operating results are therefore subject to local regulatory, economic, demographic, competitive and weather conditions in that area. A change in any of these conditions could make it more costly or difficult for us to conduct our business. In addition, any such change would have a disproportionate effect on us, compared to water utility companies that do not have such a geographic concentration.

Weather conditions and overuse may interfere with our sources of water, demand for water services and our ability to supply water to our customers.

We depend primarily on surface water from the Pennichuck Brook and, to a lesser extent, the Merrimack River in Nashua, New Hampshire to meet the present and future demands of our customers. Unexpected conditions may interfere with our water supply sources. Drought and overuse may limit the availability of surface water. These factors might adversely affect our ability to supply water in sufficient quantities to our customers and our revenues and operating results may be adversely affected. Additionally, cool and wet weather, as well as drought restrictions and our customers' conservation efforts, may reduce consumption demands, also adversely affecting our revenues and operating results. Furthermore, freezing weather may also contribute to water transmission interruptions caused by pipe and main breakage. If we experience an interruption in our water supply, it could have a material adverse effect on our operating results, financial condition and cash flows.

Contamination of our water supply may cause disruption in our services and adversely affect our operating results, financial condition and cash flows.

Our water supply is subject to contamination from the migration of naturally occurring substances in groundwater and surface systems and pollution resulting from man-made sources. In the event that our water supply is contaminated, we may have to interrupt the use of that water supply until we are able to substitute the flow of water from an uncontaminated water source through our interconnected transmission and distribution facilities. In addition, we may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities or development of new treatment methods. Our inability to substitute water supply from an uncontaminated water source, or to adequately treat the contaminated water source in a cost-effective or timely manner, may have an adverse effect on our operating results, financial condition and cash flows.

The necessity for increased security has and may continue to result in increased operating costs.

In the wake of the September 11, 2001 terrorist attacks and the ensuing attention to threats to the nation's health and security, we have expended resources to increase security measures at our facilities and heighten employee awareness of threats to our water supply. We have also incurred expenses to tighten our security measures regarding the delivery and handling of certain chemicals used in our business. We will continue to bear increased costs for security precautions to protect our facilities, operations and supplies. We are not aware of any specific threats to our facilities, operations or supplies. However, it is possible that we would not be in a position to control the outcome of such events should they occur.

Damage to, or an upgrade of, any of our dams may adversely affect our financial condition, revenues, operating results and cash flows.

Pennichuck owns eight dams, including four impounding dams which are situated on the Nashua and Merrimack border. A failure of any of those dams could result in injuries and property damage downstream for which we may be liable and which may adversely affect our financial condition, revenues and operating results. The failure of a dam would also adversely affect our ability to supply water in sufficient quantities to our customers and could adversely affect our financial condition, revenues, operating results and cash flows.

We also are required from time to time to repair or upgrade the dams that we own. The cost of such repairs can be and has been material. In 2004, we incurred approximately $1 million to upgrade the spillways and earthen embankments of our Supply and Harris Pond dams.

In January 2004, the New Hampshire DES issued a letter to Pennichuck setting forth certain deficiencies with regard to the Merrimack Village dam. Pennichuck has obtained a 24-month extension of the time in which to complete the necessary repairs, and is considering whether to sell, demolish or repair the dam. If the dam is not sold, Pennichuck expects to bring the dam into compliance during 2006. We have not yet obtained an estimate of the cost that would be necessary to bring the Merrimack Village dam into compliance.

The success of all aspects of our regulated and unregulated businesses depends significantly on the services of the members of our senior management team, and the departure of any of those persons could cause our operating results to suffer.

Our success depends significantly on the continued individual and collective contributions of our senior management team. If we lose the services of any member of our senior management or are unable to hire and retain experienced management personnel, it could harm our operating results.

Our water management subsidiary's revenue growth depends on our ability to enter into new operating contracts and maintain our existing contracts with municipalities, communities and non-transient, non-community water systems.

In our target market of southern and central New Hampshire and nearby portions of Maine, Massachusetts and Vermont, municipalities and communities own and operate the majority of water systems. A significant portion of Service Corporation's marketing and sales efforts is spent demonstrating the benefits of contract operations to elected officials and municipal authorities. Employee unions and certain "public interest" groups generally oppose the principle of outsourcing these services to companies like us and are active opponents in this process. The political environment means that decisions are made based on many factors, not just economic factors. There can be no assurance that we can maintain or expand our water management business.

Our water management subsidiary's business depends on trained, qualified employees.

State regulations set the staff training, experience and staff qualification standards required for Service Corporation's employees to operate specific water facilities. We must recruit, retain and develop qualified employees, maintain training programs and support employee advancement. We must provide the proper management and operational staff of state-certified and qualified employees to support the operation of water facilities. Failure to do so could put us at risk, among other things, for operational errors at the facilities, which would have an adverse effect on our water management business.

Our water management subsidiary's business is subject to environmental and water quality risks.

Clients of Service Corporation are owners of the facilities that we operate under contract. The facilities must be operated in accordance with various federal and state water quality standards. We also handle certain hazardous materials at these facilities, for example, sodium hydroxide. Any failure of our operation of the facilities, including noncompliance with water quality standards, hazardous material leaks and spills, and similar events, could expose us to environmental liabilities, claims and litigation costs. We cannot assure you that we will successfully manage these issues, and failure to do so could have a material adverse effect on our future results of operations.

Our real estate development activities and investments through Southwood present risks different than those related to our core water utility and water management businesses.

Our Southwood subsidiary and the Company collectively own several parcels of developable land in Nashua and Merrimack, New Hampshire, comprising approximately 580 acres. During the next several years, we expect to pursue the permitting and other land use approvals necessary to realize some or all of the value of those parcels. We will undertake those efforts either alone or in concert with others. In addition, Southwood has a 50% ownership interest in three separate joint ventures owning commercial office buildings located in Merrimack, New Hampshire and a 50% interest in another nearby parcel of land that is approved for the construction of commercial office space.

Southwood's activities and investments present risks different than those related to our core water utility and water management businesses. We believe that the principal risks of Southwood are the following:

- The value we realize for our undeveloped land will depend primarily on whether development permits and other land use approvals can be obtained in a timely, cost-effective manner. The process of obtaining such permits and approvals is inherently uncertain, lengthy and expensive.

- The value of our undeveloped land will also be affected by fluctuations in interest rates, construction costs and economic conditions prevailing in the Nashua/Merrimack area and the supply of investment capital for commercial real estate and related assets.

- A change in economic or other conditions may make certain development projects less viable, and we may decide to abandon or delay such projects. Our future operating results may be adversely affected by write-offs of costs that have been capitalized in connection with potential development projects that we subsequently determine not to pursue.

- We account for Southwood's investment in the four current joint ventures using the equity method of accounting, meaning that we recognize on a current basis 50% of each joint venture's operating results. Those results reflect ongoing carrying costs such as maintenance and property taxes.

- From time to time a Southwood joint venture may need to make significant capital improvements to its property in order to remain competitive. Such additional investment could adversely affect our return on a project.

- Any expiration, default or termination of a lease may adversely affect Southwood's revenues. A reduction in demand for the joint venture properties may cause us to continue to incur operating costs without offsetting income.

- The combined vacancy rate for the Southwood joint venture projects was 12% as of March 1, 2005. Commercial building occupancies and rental rates typically decline in an economic downturn. Southwood's share of the net operating income (or loss, if any) from leases associated with those buildings could be adversely impacted by a downturn in the local economy and commercial real estate market.

- Southwood's investment in one or more joint ventures may be jeopardized if the debt financing secured by the properties of those joint ventures cannot be refinanced on acceptable terms.

- The disposition of a single significant Southwood investment can affect our financial performance in any period, and therefore our real estate investment activities could increase (and have historically increased) fluctuations in our operating results and cash flow.

Item 2. PROPERTIES

Office Buildings

The Company owns a building in Nashua which serves as an operations center and storage facility for its construction and maintenance activities. Except as noted in "Note 3- Debt" in the accompanying Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K Report, there are no mortgages or encumbrances on our properties.

Water Supply Facilities

Pennichuck's principal properties are located in Nashua, New Hampshire, with the exception of several source-of-supply land tracts which are located in the neighboring towns of Amherst, Merrimack and Hollis, New Hampshire. In addition, Pennichuck owns four impounding dams which are situated on the Nashua and Merrimack border.

The location and general character of Pennichuck's principal plant and other materially important physical properties are as follows:

1. Holt Pond, Bowers Pond, Harris Pond and Supply Pond and related impounding dams comprise the chief source of water supply in Nashua, New Hampshire.

2. An Infilco Degremont treatment plant using physical chemical removal of suspended solids and sand and carbon filtration with a rated capacity of 35 mgd, located in Nashua, New Hampshire.

3. A raw water intake and pumping facility located on the Merrimack River in Merrimack, New Hampshire. Pennichuck has a permit from the Army Corps of Engineers to withdraw up to 30 mgd of water from the Merrimack River at this intake. The existing pumps are capable of providing up to 16.2 mgd. This supplemental water supply provides an additional source of water during dry summer periods and will provide a long-term supply for Pennichuck's service area.

4. Approximately 672 acres of land located in Nashua and Merrimack which are owned and held for watershed and reservoir purposes.

5. Eleven water storage reservoirs having a total storage capacity of 20.7 million gallons, six of which are located in Nashua, two in Amherst, one in Bedford, one in Derry and one in Hollis, New Hampshire.

6. A 900,000 gallon per day gravel-packed well located in Amherst, New Hampshire.

The sources of supply for Pennichuck East consist of a well system, owned by the Town of Hudson, in Litchfield, New Hampshire, purchased water from the Manchester Water Works or individual bedrock wells. Pennichuck East has entered into long-term water supply agreements to obtain water from Hudson and Manchester Water Works.

The Pittsfield Aqueduct Company owns the land surrounding Berry Pond and it treats the water from this Pond through a .5 mgd water filtration plant located in Pittsfield, New Hampshire. Berry Pond serves as the sole source of supply for Pittsfield.

Water Distribution Facilities

The distribution facilities of the Company's regulated water companies consist of, among other assets, the following:

	Pennichuck	Pennichuck East	Pittsfield
Transmission & distribution mains (in miles)	418	120	13
Services	24,042	4,750	636
Hydrants	2,317	438	67

Land Held for Future Development

At December 31, 2004, the remaining portfolio of land held for future development aggregated approximately 580 acres. Title to these properties are held in the name of either Pennichuck Corporation or Southwood Corporation, and are managed by Southwood. The portfolio is comprised of 12 separate parcels ranging in size from 10.5 acres to 102 acres. Three parcels, aggregating 92 acres, are located within the municipality of Nashua, New Hampshire, and the remaining 9 parcels, aggregating 490 acres, are located within the municipality of Merrimack, New Hampshire.

The entire portfolio of land held for future development is classified under "current use" status, resulting in an assessment that is based on the property's actual use and not its highest or best use.

Item 3. LEGAL PROCEEDINGS

Municipalization Efforts

On March 25, 2004, the City filed a petition with the New Hampshire Public Utilities Commission (the "NHPUC") under the New Hampshire utility municipalization statute, NHRSA Ch. 38, seeking to take by eminent domain all of the utility assets of the Company's three utility subsidiaries. Under NHRSA Ch. 38, if the NHPUC makes a finding that it is in the public interest to do so, a municipality may take the assets of a utility providing service in that municipality. The NHPUC is also charged with determining the amount of compensation for the assets that it finds it is in the public interest for the municipality to take. On January 21, 2005, the NHPUC issued an order ruling, among other things, that (1) the City does not have the legal authority to pursue a taking of the assets of the two Pennichuck utility subsidiaries that provide no service in Nashua, Pennichuck East Utility, Inc. or Pittsfield Aqueduct Company, Inc. and (2) the City does have the legal authority to pursue a potential taking of all of the assets of Pennichuck Water Works, Inc., subject to a determination by the NHPUC as to what portion of those assets, if any, it is in the public interest for Nashua to take.

Pursuant to an order issued by the NHPUC on October 1, 2004, the City filed written testimony on November 22, 2004 supporting its position that the proposed taking is in the public interest. The Commission has indicated that it will set a procedural schedule for the remainder of the case after the parties have submitted written statements of their positions regarding the sequencing of events in the case and have met to discuss procedural issues.

If the City is successful in obtaining a determination by the NHPUC that it should be allowed to take some or all of Pennichuck's assets, the City is not required under NHRSA Ch. 38 to complete the taking and could ultimately choose not to proceed with the purchase of the assets. The Company cannot predict the ultimate outcome of these matters. It is possible that, if the acquisition efforts of the City are successful, the financial position of the Company would be materially impacted.

Prior to the City's filing of its eminent domain case at the NHPUC, the Company filed a Petition for Declaratory Judgment in New Hampshire Superior Court seeking a determination that the City had waited too long to seek condemnation authority from the NHPUC after obtaining a public vote on November 26, 2002 regarding municipalization of water utility assets as well as a determination that NHRSA Ch. 38 was unconstitutional on a number of grounds and, later, that the NHPUC proceeding ultimately filed by the City exceeded the scope of the assets that were properly the subject of an attempted taking by the City under NHRSA Ch. 38. On September 1, 2004, the Superior Court ruled adversely to the Company on a number of these issues, deferred to the NHPUC with regard to the issue relating to the scope of the assets that the City could seek to acquire, and determined that one of the constitutional claims raised by the Company should be addressed only after the proceeding at the NHPUC had concluded. On October 22, 2004, the Company filed an appeal with the New Hampshire Supreme Court on a number of its claims. Briefs have been filed with the court, and the parties are awaiting the scheduling of oral arguments.

In addition to its efforts to obtain declaratory relief, the Company also brought suit against the City in New Hampshire Superior Court to obtain monetary damages that the Company believes resulted from the City's efforts to acquire some or all of the assets of the Company. The City removed the case to United States District Court for the District of New Hampshire and then sought to have the case dismissed in its entirety. On September 13, 2004, the District Court dismissed the Company's federal law claims without prejudice on the basis that the Company had not yet exhausted its available state law remedies and remanded the case to New Hampshire Superior Court for consideration of the Company's state law claims. On December 1, 2004, the Superior Court dismissed the remainder of the case without prejudice on the basis that the claim for damages was premature and giving the Company the right to refile the case at a later date depending on the outcome of the proceeding before the NHPUC.

Please see Item 1 for a discussion of the background of the proceeding, the issues and uncertainties associated with the proceeding, and the possible outcomes of the proceeding.

Regulatory Investigation

Overview. The Company and Maurice L. Arel, the Company's former President and Chief Executive Officer, were the subject of parallel investigations by the New Hampshire Bureau of Securities Regulation (the "Bureau") and the U.S. Securities and Exchange Commission (the "SEC") that began in late 2002 and early 2003, respectively. Effective December 16, 2004, the Bureau and the SEC entered into settlements with the Company and Mr. Arel regarding matters related to those investigations.

The settlement with the Company was effected through (1) a Consent Order issued by the Bureau (the "New Hampshire Order") and (2) an SEC Order Instituting Cease-and-Desist Proceedings, Making Findings, and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934 (the "SEC Order"). The allegations in the Orders relate primarily to the Company's public disclosures regarding various transactions involving joint ventures formed by the Company's Southwood subsidiary (the "Southwood Joint Ventures"). The Southwood Joint Ventures were organized to commercialize land that had long been held by Pennichuck. The Bureau and the SEC simultaneously entered into separate settlement agreements with Mr. Arel. The Company and Mr. Arel neither admitted nor denied any of the factual or legal allegations contained in their respective settlement documents.

Scope of the Orders. The New Hampshire Order directs the Company to refrain from any violation of the relevant provisions of New Hampshire law, including:

- RSA 421-B:3, which makes it unlawful for any person, in connection with the offer, sale, or purchase of any security, to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, or to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, and
- RSA 421-B:19, which makes it unlawful for any person to make or cause to be made a statement in any document filed with the Bureau or in any proceeding brought by the Bureau that is, at the time and in the light of the circumstances under which such statement is made, false or misleading in any material

respect or, in connection with such statement, to omit to state a material fact necessary in order to make the statement made, in the light of the circumstances under which it was made, not misleading.

The SEC Order directs the Company to cease and desist from committing or causing any future violation of the relevant federal securities laws, including:

- Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and SEC Rule 10b-5, which prohibit the making of material misrepresentations or omissions with scienter in connection with the purchase or sale of any security,
- Section l4(a) of the Exchange Act and SEC Rule 14a-9, which make it unlawful to solicit proxies by means of any proxy statement which, at the time and in the light of the circumstances under which it is made, is false or misleading with respect to any material fact, or which omits to state any material fact necessary in order to make the statements therein not false or misleading, and
- Section 13(a) of the Exchange Act, which requires issuers of securities registered with the SEC to file periodic reports with the SEC containing information prescribed by specific SEC rules, and SEC Rule 12b-20, which requires, in addition to information required by SEC rules to be included in periodic reports, such further material information in those periodic reports as may be necessary to make the required statements not misleading.

No monetary sanctions were imposed under the SEC Order in recognition that monetary sanctions were imposed under the New Hampshire Order.

Payments required by New Hampshire Order. The Company and Mr. Arel were jointly and severally required to pay to the State of New Hampshire an administrative fine of $50,000 and investigation costs of $60,000. Mr. Arel made both payments under the terms of a settlement between him and the Company.

Shareholders of the Company as of March 31, 2003 were entitled to receive a payment totaling $280,000 under the terms of the New Hampshire Order. The payment was made as of March 1, 2005. The Company and Mr. Arel have agreed that Mr. Arel shall be financially responsible for $160,000 of that amount and the Company shall be responsible for $120,000. In accordance with the terms of the New Hampshire Order, neither Mr. Arel nor any director of the Company who was a shareholder as of March 31, 2003 received a portion of the shareholder payment.

Other Proceedings

The Company and its subsidiaries are not otherwise involved in any material litigation or other proceedings which, in management's opinion, would have an adverse effect on the business, the consolidated financial condition or the operating results or cash flows of the Company and its subsidiaries.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the fiscal year covered by this Report, no matters were submitted to a vote of security holders.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the Nasdaq National Market and trades under the symbol "PNNW." On March 24, 2005, there were approximately 635 holders of record of the 2,415,147 shares of our common stock outstanding. The closing price per share of our common stock on March 30 was $26.05. The following table sets forth the comparative market prices per share of our common stock based on the high and low closing sales prices as reported on the Nasdaq National Market during the applicable periods and the dividends declared by the Company during those periods.

Period	High	Low	Dividends Declared
2004:			
Fourth Quarter	$27.50	$23.98	$.215
Third Quarter	27.00	24.10	.215
Second Quarter	28.75	24.85	.215
First Quarter	29.78	27.89	.215
2003:			
Fourth Quarter	$35.00	$22.44	$.215
Third Quarter	26.95	23.50	.215
Second Quarter	25.82	21.35	.215
First Quarter	28.81	20.24	.195

We expect to continue to pay comparable cash dividends in the future, subject to the terms of our debt agreements. Certain bond and note agreements involving our Pennichuck subsidiary, require, among other things, restrictions on the payment or declaration of dividends by Pennichuck to us. Under Pennichuck's most restrictive covenant, approximately $5.9 million of its retained earnings was unrestricted for payment or declaration of common dividends to us at December 31, 2004. See Note 3 of the accompanying Notes to Consolidated Financial Statements for further discussion regarding this and other debt covenants.

Item 6. SELECTED FINANCIAL DATA

We have derived the selected historical financial data as of and for each of the years ended December 31, 2004, 2003 and 2002, from our audited financial statements and related notes. You should read the information below in conjunction with our historical financial statements and related notes and our "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing in this report, which is incorporated by reference herein. Stock information has been adjusted to reflect the four-for-three stock split effected December 3, 2001.

	For the Year Ended December 31,				
	2004	2003	2002	2001	2000
Income Statement:	(In thousands, except share and per share data)				
Operating revenues					
Water utility operations	$ 19,601	$ 18,680	$ 18,830	$ 17,412	$ 15,964
Water management services	1,932	1,702	1,459	958	662
Real estate operations	1,437	949	3,088	4,156	6,989
Other	55	57	45	228	57
Total operating revenues	23,025	21,388	23,422	22,754	23,672
Operating expenses					
Water utility operations	15,130	14,567	12,785	12,409	11,614
Water management services	1,369	1,522	1,239	881	485
Real estate operations	282	104	1,750	912	2,357
Total operating expenses	16,781	16,193	15,774	14,202	14,456
Operating income	6,244	5,195	7,648	8,552	9,216
Eminent domain expenses	(1,202)	(235)	—	—	—
Merger and other expenses	(162)	(879)	(1,946)	—	—
Other income	31	56	65	221	183
Interest expense	(1,952)	(1,969)	(1,978)	(1,981)	(1,991)
Income before income taxes	2,959	2,168	3,789	6,792	7,408
Provision for income taxes	1,140	888	1,450	2,657	2,870
Minority interest	1	(33)	2	(523)	(855)
Net income	$ 1,820	$ 1,247	$ 2,341	$ 3,612	$ 3,683
Earnings per common share (diluted)	$ 0.76	$ 0.52	$ 0.97(1)	$ 1.52(1)	$ 1.56(1)
Weighted average shares outstanding (diluted)	2,409,324	2,398,198	2,411,781	2,400,088	2,369,272
Cash dividends declared per common share	$ 0.86	$ 0.84	$ 0.81(2)	$ 0.76	$ 0.73

	As of December 31,				
	2004	2003	2002	2001	2000
Balance Sheet:			(In thousands)		
Utility plant and equipment, at original cost less accumulated depreciation	$ 90,886	$ 85,727	$ 79,672	$ 73,960	$ 68,438
Total assets	102,127	97,210	90,982	87,840	82880
Line of credit	3,800	2,000	—	—	—
Current portion of long term debt	9,889	368	354	348	319
Long-term debt including current portion	26,835	27,247	27,214	27,420	27,237
Shareholders' equity	30,151	30,172	30,433	30,724	28,780
Total capitalization including line of credit	60,786	59,419	57,647	58,144	56,017

(1) Includes $0.65, $0.67, and $1.45 per share effect of sales of real estate for $2.6 million, $2.7 million, and $5.6 million in 2002, 2001 and 2000, respectively.

(2) Includes a one-time special dividend of $0.033 per share that we declared in 2003 in connection with the Aqua America merger agreement that we terminated in February 2003.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

We are a non-operating holding company whose income is derived from the earnings of our five wholly owned subsidiaries. We are engaged primarily in the collection, storage, treatment and distribution of potable water for domestic, industrial, commercial and fire protection service in southern and central New Hampshire through our three utility subsidiaries: Pennichuck, Pennichuck East and Pittsfield. Our water utility revenues constituted 85% of our consolidated revenues in 2004. Pennichuck, our principal subsidiary which was established in 1852, accounted for 69% of our 2004 consolidated revenues. Pennichuck's core franchise area presently includes the City of Nashua, New Hampshire and 10 surrounding municipalities.

Our water subsidiaries are regulated by the New Hampshire Public Utilities Commission ("New Hampshire PUC") and must obtain New Hampshire PUC approval to increase their water rates to recover increases in operating expenses and to obtain the opportunity to earn a return on investments in plant and equipment. New Hampshire law provides that utilities are entitled to charge rates which permit them to earn a reasonable return on the cost of the property employed in serving its customers, less accrued depreciation, contributed capital and deferred income taxes ("Rate Base"). The cost of capital permanently employed by a utility in its utility business marks the minimum rate of return which a utility is lawfully entitled to earn on its Rate Base. Capital expenditures associated with complying with federal and state water quality standards have historically been recognized and approved by the New Hampshire PUC for inclusion in our water rates, though there can be no assurance that the New Hampshire PUC will approve future rate increases in a timely or sufficient manner to cover our capital expenditures.

The businesses of our two other subsidiaries are non-regulated water management services and real estate development and investment. Service Corporation provides various non-regulated water-related monitoring, maintenance, testing and compliance reporting services for water systems for various towns, businesses and residential communities in and around southern and central New Hampshire. Its most significant contracts are with the Town of Hudson, New Hampshire and the Town of Salisbury, Massachusetts.

Southwood is actively engaged in real estate planning, development and management of residential, commercial, industrial and retail properties. Historically, most of Southwood's activities were conducted through real estate joint ventures. During the past 10 years Southwood has participated in four residential joint ventures with John P. Stabile II, a local developer. Southwood's earnings have from time to time during that period contributed a significant percentage of our consolidated net income. Southwood's contributions from the sale of real estate have increased the fluctuations in our net income during that period. We expect that Southwood will contribute a smaller proportion of our future revenues and earnings.

As you read Management's Discussion and Analysis, please refer to our Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements in Item 8 of this report.

Forward-Looking Statements

Certain statements in this Management's Discussion and Analysis are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are made based upon, among other things, our current assumptions, expectations and beliefs concerning future developments and their potential effect on us. These forward-looking statements involve risks, uncertainties and other factors, many of which are outside our control, that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases you can identify forward-looking statements where statements are preceded by, followed by, or include the words "in the future," "believes," "expects," "anticipates," "plans" or similar expressions, or the negative thereof.

Forward-looking statements involve risks and uncertainties, and there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. Such factors include, among other things, whether eminent domain proceedings are successful against some or all of our water utility assets, the success of applications for rate relief, changes in governmental regulations, changes in the economic and business environment that may impact demand for our water and real estate products, changes in capital requirements that may affect our level of capital expenditures, changes in business strategy or plans and fluctuations in weather conditions that impact water consumption. These risks and others are described elsewhere in this report, including particularly under the caption "Risk Factors." We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Events Significantly Affecting Our Earnings During Recent Years

Overview. Our earnings during the five year period ended December 31, 2004 were significantly affected by the following events that occurred during one or more years of that period:

- Sales of land by Southwood, which were especially significant in 2000, 2001, 2002 and 2004;
- Expenses related to the merger agreement that we entered into in April 2002 with Aqua America Inc. (formerly known as Philadelphia Suburban Corporation) and terminated in February 2003;
- Our actions to oppose ongoing efforts by the City of Nashua, New Hampshire that began in 2002 to acquire all or a significant portion of Pennichuck's assets through an eminent domain proceeding under New Hampshire utility law; and
- Defense and settlement costs related to parallel investigations by the U.S. Securities and Exchange Commission (the "SEC") and the New Hampshire Bureau of Securities Regulation (the "Bureau") that began in late 2002 and early 2003 and settled in December 2004.

Southwood Real Estate-Related Revenues. Our revenues and earnings were positively affected by significant sales of Southwood land during four of the past five years. The following table sets forth the amount of revenues that we recognized during each year in the 2000 to 2004 period attributable to those land sales and the percentage that those revenues represented of our total revenues during each of those years.

Year	Southwood Land Sales	% of Consolidated Revenues
2000	$5,590,000	23.6%
2001	2,677,000	11.8%
2002	2,595,000	11.1%
2003	532,000	2.5%
2004	1,224,000	5.3%

We expect that the overall trend shown in the preceding table will continue, and Southwood's revenues from land sales will constitute a decreasing percentage of our consolidated revenues.

Terminated Merger Agreement. We entered into an agreement in April 2002 to be acquired in a merger with Aqua America Inc. Our shareholders would have received Aqua America shares having a value of $33.00 per share at the time we announced the agreement. In February 2003, before the merger was submitted to our shareholders, we agreed with Aqua America to abandon the proposed transaction, because of actions taken by the City of Nashua, summarized below, to attempt to acquire all or a significant portion of Pennichuck's assets by eminent domain. We incurred $1.9 million and $231,000 of merger-related expenses that we recognized in 2003 and 2002, respectively.

City of Nashua's Ongoing Eminent Domain Proceeding. The City of Nashua's Mayor stated his opposition to our proposed merger with Aqua America almost immediately after we announced it. In January 2003, Nashua residents approved a referendum authorizing the City to pursue the acquisition of our assets by eminent domain or otherwise. In March 2004, as part of the eminent domain process, the City filed a petition with the New Hampshire PUC seeking approval to acquire all of our water utility assets, whether or not related to our Nashua service area. The eminent domain proceeding and potential consequences for us are described elsewhere in this prospectus. See Item 1.

We have vigorously opposed the efforts of the City to acquire our assets by eminent domain and intend to continue to do so. The New Hampshire PUC has not set a schedule for the eminent domain proceeding, and we do not expect the New Hampshire PUC to rule on the matter before late 2006. Our eminent domain related expenses in 2003 and 2004 were $235,000 and $1.2 million, respectively. We expect our eminent domain expenses in 2005 to be comparable to those expenses incurred in 2004.

SEC and New Hampshire Investigations and Settlement. We and our former President and Chief Executive Officer, who resigned in April 2003, were the subject of parallel investigations by the SEC and the Bureau that began in early 2003 and late 2002, respectively. As disclosed elsewhere in this prospectus, the SEC and the Bureau alleged that some of our public disclosures regarding various joint venture transactions in the mid to late-1990s were materially false or misleading in several respects, and the Bureau contended that we exercised insufficient oversight of Southwood's joint ventures, allegedly evidenced by our failing to obtain or to keep adequate records, failing to obtain formal appraisals of the land we contributed to the joint ventures, and failing to consider or investigate real estate development alternatives since the early 1990s. See Item 1.

Effective December 16, 2004, the SEC and the Bureau entered into settlements with the former President and us. The former President paid the State of New Hampshire an administrative fine of $50,000 and investigation costs of $60,000. In addition, under the terms of the New Hampshire settlement our shareholders as of March 31, 2003 received a payment totaling $280,000 as of March 1, 2005. The former President was financially responsible for $160,000 of that amount and we were responsible for the balance. Our investigation-related expenses in 2003 and 2004 were $498,000 and $162,000, respectively.

Recent Developments

Settlement of Pennichuck Rate Relief. In March 2005, we reached a settlement with the New Hampshire PUC staff on our requested rate relief for Pennichuck that we filed in May 2004. A hearing on the settlement is scheduled for April 5, and we expect that the New Hampshire PUC will issue a final written decision shortly thereafter. In September 2004, the New Hampshire PUC authorized an interim annualized increase of $1.3 million effective retroactively for service rendered on and after June 1, 2004. The settlement agreement, if approved by the New Hampshire PUC, will result in a final annualized rate increase of $1.7 million, also effective as of June 1, 2004. There can be no assurance that the rate relief will be granted.

New Bank Revolving Credit Facility. Effective March 22, 2005, we restructured and expanded our debt arrangements with Bank of America, increasing our revolving credit facility to $16.0 million from $6.5 million. The Bank of America facility permits us to borrow, repay and re-borrow, in varying amounts and from time to time at our discretion through December 31, 2007, subject to the terms and conditions of the facility. The new arrangement replaced one that was scheduled to expire in April 2005.

Long-Term Debt. In January 2005, we issued $6.6 million of long-term, fixed rate tax-exempt debt, with $3 million representing new funds and the balance utilized to optionally redeem a like amount of higher cost tax-exempt debt. In March 2005, we issued $5.0 million of 5-year taxable debt to an insurance company pursuant to a private placement transaction. A portion of the proceeds ($1.5 million) represented new funds and the balance ($3.5 million) was utilized to fund the maturity of a like amount of higher cost taxable debt.

In late March 2005 we received a commitment from Bank of America, the lender for an existing $4.5 million loan to the Company and Pennichuck East, as co-borrowers, due April 8, 2005, to extend the loan to a new maturity date on or before December 31, 2009. The extension commitment contains covenants substantially similar to the Company's new revolving credit facility as described above. The Company's board of directors is expected to approve the transaction subject to New Hampshire PUC approval. We have filed a petition with the New Hampshire PUC seeking approval of the extension and a related swap transaction to convert the loan to a fixed interest rate on or before April 8, 2005.

Pending Acquisition. In January 2005, we entered into an agreement to acquire three water systems with approximately 1,100 total customers in the Lakes Region and central part of New Hampshire: the Locke Lake water system in Barnstead, the Birch Hill water system in Conway and the Sunrise Estates water system in Middleton, New Hampshire. The acquisition, which is our largest since 1998, is subject to completion of our due diligence and the approval of the New Hampshire PUC. We expect the acquisition to close by the end of 2005.

Critical Accounting Policies

We have identified the accounting policies below as those policies critical to our business operations and the understanding of the results of operations. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Changes in the estimates or other judgments included within these accounting policies could result in significant changes to the financial statements. Our critical accounting policies are as follows.

Regulatory Accounting. The use of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards No. 71 ("SFAS 71"), *"Accounting for the Effects of Certain Types of Regulation"* stipulates generally accepted accounting principles for companies whose rates are established by or are subject to approval by an independent third-party regulator such as the New Hampshire PUC. In accordance with SFAS 71, we defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in rates charged to our water utilities' customers. In the event that the inclusion in the rate-making process is disallowed, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

We did not defer the costs associated with the terminated merger agreement with Aqua America, the City of Nashua's ongoing eminent domain proceeding or the SEC and Bureau regulatory investigations and settlements.

Revenue Recognition. The revenues of our water utility subsidiaries are based on authorized rates approved by the New Hampshire PUC. Estimates of water utility revenues for water delivered to customers but not yet billed are accrued at the end of each accounting period. We read our residential customer meters generally on a quarterly basis and record revenues based on meter reading results. Unbilled revenues from the last meter-reading date to the end of the accounting period are estimated based on historical usage patterns and the effective water rates. The estimate of the unbilled revenue is a management estimate utilizing certain sets of assumptions and conditions. Actual results could differ from those estimates. Accrued unbilled revenues recorded in the accompanying consolidated balance sheets as of December 31, 2004 and 2003 were approximately $1.8 million and $1.7 million, respectively.

Our non-utility revenues are recognized when services are rendered or when water is delivered. Revenues are based, for the most part, on long-term contractual rates.

Pension and Other Postretirement Benefits. Our pension and other postretirement benefits costs are dependent upon several factors and assumptions, such as employee demographics, plan design, the level of cash contributions made to the plans, earnings on the plans' assets, the discount rate, the expected long-term rate of return on the plans' assets and health care cost trends.

In accordance with SFAS No. 87, "*Employers Accounting for Pensions*" ("SFAS 87") and SFAS No. 106, "*Employers Accounting for Postretirement Benefits Other than Pensions*" ("SFAS 106"), changes in pension and postretirement benefit obligations other than pensions ("PBOP") associated with these factors may not be immediately recognized as pension and PBOP costs in the statements of income, but generally are recognized in future years over the remaining average service period of the plans' participants.

As further described in Note 6 to the accompanying consolidated financial statements, we revised the discount rate in 2004 to 5.75% from 6.25% in 2003 to reflect market conditions. In determining pension obligation and cost amounts, this and other assumptions may change from period to period, and such changes could result in material changes to recorded pension and PBOP costs and funding requirements. Further, the value of our pension plan assets, which partially consist of equity investments, were adversely affected by significant declines in the financial markets from 2000 through 2002, which more than offset positive investment performance during 2003 and 2004. Fluctuations in market returns may result in increased or decreased pension costs in future periods. These conditions impacted the funded status of our pension plan at both December 31, 2004 and 2003, and therefore, will also impact pension costs for 2005.

Our pension plan currently meets the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Although we are not required to make contributions to the plan, we anticipate that we will contribute approximately $195,000 to the plan in 2005.

Results of Operations—General

In this section, we discuss our 2004, 2003 and 2002 results of operations and the factors affecting them. Our operating activities, as discussed in greater detail in Note 12 to the Notes to Consolidated Financial Statements, are grouped into three primary business segments as follows:

- Water utility operations,
- Water management services, and
- Real estate development and investment.

Our consolidated revenues tend to be significantly affected by weather conditions experienced throughout the year and by sales of major real estate parcels which may occur from time to time. Water revenues are typically at their lowest point during the first and fourth quarters of the calendar year. Water revenues in the second and third quarters tend to be greater because of increased water consumption for non-essential usage by our customers during the late spring and summer months.

Results of Operations—2004 Compared to 2003

Overview. For the year ended December 31, 2004, our consolidated net income was $1.8 million, compared to net income of $1.2 million in 2003, an increase of approximately 46%. On a per share basis, basic income per share was $.76 for the twelve months ended December 31, 2004 as compared to $.52 per share for the year ended December 31, 2003. The increase in consolidated net income was primarily attributable to

- a temporary rate increase approved by the New Hampshire PUC of 8.9% implemented by Pennichuck for service rendered on and after June 1, 2004;

- a permanent rate increase of 17.7% approved by the New Hampshire PUC and implemented by Pittsfield in February 2004; and

- a 1.5% increase in the combined utility customer base for the year.

These factors contributed to a 7.6% increase in revenues to $23.0 million for the year ended December 31, 2004 from $21.4 million for the year ended December 31, 2003.

Our costs related to defending against the City of Nashua's eminent domain proceeding increased significantly in 2004, which more than offset a decline in the costs related to the SEC and Bureau investigations. Our eminent domain related expenses were $1.2 million in 2004 compared to $235,000 in 2003. Our investigation-related expenses in 2004 were $162,000 compared to $648,000 in 2003. Excluding the effect of the eminent domain and investigation-related expenses, our consolidated net income was $2.6 million, or $1.10 per share, in 2004 and $1.9 million, or $.80 per share, in 2003.

We believe that a presentation of net income excluding these expenses is useful to investors because it is indicative of our financial performance in the ordinary course of business. We use net income excluding these expenses to evaluate our financial performance because we expect that the financial impact of these expenses has become or, in the relatively near term, will become insignificant. Expenses related to the terminated merger agreement with Aqua America and the settlement with the SEC and the Bureau will not have a material financial impact on us in 2005 and beyond. We expect that the financial impact of expenses related to the eminent domain proceeding will cease within the next two to three years. The material limitation associated with using this measure is that it does not include all of the expenses required to be included by generally accepted accounting principles. We compensate for this limitation when using this measure by comparing it directly to net income calculated according to generally accepted accounting principles.

Water Utility Operations. Our water utility operations include the activities of Pennichuck, Pennichuck East and Pittsfield, each of which is regulated by the New Hampshire PUC. On a combined basis, net income of our three utilities in calendar year 2004 was approximately $1.6 million, an increase of $288,000 from 2003 principally due to the rate relief received by two of the utility subsidiaries from the New Hampshire PUC in 2004 as well as modest growth in our utility customer base as discussed below.

Our utility operating revenues increased to $19.6 million in 2004, or almost 5% from 2003. For 2004, approximately 82%, 16% and 2% of our total utility operating revenues were generated by Pennichuck, Pennichuck East and Pittsfield, respectively, as shown in the following table.

	2004	2003	Change
Pennichuck	$15,992,000	$15,254,000	$738,000
Pennichuck East	3,136,000	2,979,000	157,000
Pittsfield	473,000	447,000	26,000
Total	$19,601,000	$18,680,000	$921,000

The overall increase in water revenues reflects the rate relief granted to Pennichuck and Pittsfield during 2004 as well as a 1.5% increase in the combined utility customer base during the year, resulting in a total combined customer base of approximately 29,900 as of December 31, 2004. Overall billed consumption of our three utilities was relatively flat during the period. Total billed consumption in Pennichuck's core system as well as within our Pittsfield system was slightly lower than consumption levels during 2003. Total billed consumption in Pennichuck East was approximately 1.6% greater than 2003. Total rainfall during 2004 was nearly 42 inches compared to almost 49 inches of rain during 2003. This decrease in rainfall contributed to the increased consumption in Pennichuck East, which traditionally experiences higher revenues attributable to irrigation activities during the summer months.

In May 2003, Pittsfield filed a Notice of Intent to File for Rate Relief in which it sought an increase in its annual revenues. That rate case was concluded in December 2003, and in January 2004 the New Hampshire PUC granted an increase of 17.7%, representing additional annual revenues of approximately $73,000. This rate relief is effective for water bills rendered on and after January 1, 2004. The positive effect of this rate relief was partially offset by lower consumption due to a wetter than normal summer.

On May 28, 2004, Pennichuck filed a Petition for Rate Relief with the New Hampshire PUC in which it is seeking an overall increase in its rates, which if granted, would have resulted in approximately $2.3 million of additional annual revenues. On September 30, 2004, the New Hampshire PUC granted Pennichuck temporary rate relief of 8.9% effective for service rendered on or after June 1, 2004. This temporary rate relief represents approximately $1.3 million in annual water revenues and such increase will be adjusted when permanent rates are set by order of the New Hampshire PUC. In March 2005, we reached a settlement with the New Hampshire PUC staff on our requested rate relief for Pennichuck that we filed in May 2004. A hearing on the settlement is scheduled for April 5, and we expect that the New Hampshire PUC will issue a final written decision shortly thereafter. The settlement agreement, if approved by the New Hampshire PUC, will result in a final annualized rate relief of $1.7 million, effective retroactively for service rendered on and after June 1, 2004.

For the year ended December 31, 2004, utility operating expenses increased by $563,000, or 3.9%, to $15.1 million as shown in the table below.

	2004	2003	Change
Operations & maintenance	$ 9,949,000	$ 9,406,000	$ 543,000
Depreciation & amortization	3,062,000	2,843,000	219,000
Taxes other than income taxes	2,119,000	2,318,000	(199,000)
Total	$15,130,000	$14,567,000	$ 563,000

The operations and maintenance expenses of our water utility business include such categories as:

- water supply, treatment, purification and pumping,
- transmission and distribution system functions, including repairs and maintenance and meter reading, and
- customer service and general and administrative functions.

The combined increase in our utilities' operating expenses over 2003 was chiefly the result of the following:

- approximately $105,000 of increased purification and treatment costs in our core Pennichuck system, reflecting higher purchased water, power, chemical and labor costs;
- $404,000 of increased general and administrative costs primarily relating to costs for employee benefits, property and casualty insurance and administrative salaries;
- recognition of approximately $218,000 in additional depreciation and amortization charges resulting from approximately $24.7 million of new capital investment over the past three years; and
- a $200,000 decrease in local and state property taxes as a result of a $294,000 tax abatement recorded in the fourth quarter of 2004 from the State of New Hampshire that more than offset the impact of additional taxable assets placed in service within the utilities' franchise areas during 2004.

These increased costs are expected to be embedded in our utilities' future cost of providing water service. As such, our utilities will continue to seek future rate relief to recover these increasing costs.

For calendar year 2004, 87%, 10% and 3% of the combined utilities' operating income was provided by Pennichuck, Pennichuck East and Pittsfield, respectively, compared to 83%, 14% and 3% in 2003.

Water Management Services. The following table provides a breakdown of revenues from our non-regulated, water-related water management services operations for the years ended December 31, 2004 and 2003.

	2004	2003	Change
Municipal contracts	$1,234,000	$1,191,000	$ 43,000
Community system contracts	339,000	235,000	104,000
Watertight program	223,000	184,000	39,000
Miscellaneous	136,000	92,000	44,000
Total	$1,932,000	$1,702,000	$230,000

The $43,000 increase in contract revenues from municipal contracts primarily resulted from additional contract fees billed by Service Corporation for unplanned work performed under those contracts. The combined base annual fees under those two municipal contracts represent approximately $786,000 and $765,000 for the years ended December 31, 2004 and 2003, respectively, with the balance of $448,000 and $426,000 representing fees earned for services performed in addition to the base scope of services for 2004 and 2003, respectively.

Contract revenues from community system contracts for 2004 were $339,000, representing 77 operating contracts at the end of 2004 compared to 67 such contracts at the end of 2003. The increase in community system contract revenues for the year resulted from higher fees from unplanned services which totaled $213,000 in 2004 and $116,000 in 2003. For 2004 and 2003, Service Corporation revenues included $223,000 and $184,000, respectively, for fees earned under its Watertight program. This program provides maintenance service to residential customers for a fixed annual fee. At the end of 2004, approximately 3,400 customers were enrolled in this program which was consistent with 2003.

Expenses associated with our contract operations were $1.4 million and $1.5 million for 2004 and 2003, respectively, comprised primarily of direct costs for servicing our various operating contracts and allocated intercompany charges for general and administrative support for contract operations. The $100,000, or 6.7%, decline in expenses from 2003 to 2004 resulted principally from a decrease of $275,000 in allocated intercompany charges due to a change in the methodology that we used to allocate to Service Corporation the cost of the resources provided by the Company and Pennichuck. The decrease in the intercompany charge more than offset an increase in direct expenses of $93,000.

Real Estate Development and Investment. For the year ended December 31, 2004, Southwood's revenues were $1.4 million compared to $949,000 in 2003. In the table below, we show the major components of Southwood's revenues during 2004 and 2003.

	2004	2003
Land sales:		
Folsom Property	$1,224,000	$257,000
Westwood Park LLC	(6,000)	150,000
Other	80,000	125,000
	1,298,000	532,000
Income from unconsolidated equity investments	139,000	417,000
Total	$1,437,000	$949,000

The increase in our real estate revenues resulted principally from the sale of an approximately 67 acre parcel of unimproved land located in Merrimack, New Hampshire. In January 2003, Southwood sold this land to the Folsom Development Corporation for approximately $1.5 million. Under the terms of that sale, Southwood received approximately $257,000 in cash and a long-term note receivable of $1.2 million. The note, which was set to mature in October 2005, carried a floating interest rate of prime plus 1.5% and was secured by a first mortgage on the property. The note was fully paid during the fourth quarter of 2004, resulting in recognition of the remaining gain of $1.2 million in accordance with the requirements established under Statement of Financial Accounting Standards No. 66, "*Accounting for Sales of Real Estate.*"

At December 31, 2004 and 2003, Southwood had a 50% ownership interest in four joint ventures organized as limited liability companies, as discussed in greater detail under "—Off Balance Sheet Arrangements" and also under Note 4 in the Notes to Consolidated Financial Statements. The remaining 50% ownership interest in each joint venture is held by John P. Stabile II, a local developer, with whom Southwood has also participated in four residential joint ventures during the past 10 years. Southwood uses the equity method of accounting for its investments in the joint ventures. Consequently, Southwood's investment is adjusted for its share of earnings or losses and for any distributions received from the joint venture. For the year ended December 31, 2004, Southwood's share of pre-tax earnings and distributions from these joint ventures was approximately $195,000 and $0, respectively, compared to pre-tax earnings of $417,000 and distributions of $67,500 for 2003. The decline in the joint ventures pre-tax earnings resulted primarily from several tenant vacancies in the HECOP I and HECOP III buildings. Southwood's share of pre-tax earnings is included under "Revenues-real estate operations" in the accompanying Consolidated Statements of Income.

Southwood also has a 60% ownership in Westwood Park LLC, a consolidated joint venture formed in 1997 to develop a tract of land in northwest Nashua. During 2003, Westwood received $150,000 representing escrowed funds from a land sale which occurred in 2000.

Expenses associated with our real estate operations were $282,000 and $104,000 for the years ended December 31, 2004 and 2003, respectively. This increase was primarily attributable to increased professional fees associated with an increased emphasis on management and development of our real estate portfolio during 2004. Southwood's 2004 operating expenses of approximately $282,000 consisted primarily of $10,000 of property taxes associated with its remaining landholdings, $86,000 for general and administrative costs and $178,000 in allocated intercompany charges due to additional Company resources utilized for the planning and development of our existing land portfolio. We expect that during each of the next several years Southwood will incur approximately $1 million of expenses for development efforts, salaries and other administrative costs.

Eminent Domain-Related Expenses. Our costs incurred in defending against the City of Nashua's eminent domain proceeding increased significantly in 2004 to $1.2 million from $235,000. The increase was primarily attributable to expenses incurred in a significant public relations campaign opposing the City's efforts and to costs incurred in litigating several cases with the City in state and federal courts.

Merger and Other Expenses. Expenses attributable to the terminated merger agreement with Aqua America and the SEC and Bureau investigations and settlement declined significantly in 2004 compared to 2003. We had no merger expenses in 2004 compared to $231,000 in 2003, when we terminated the merger agreement with Aqua America.

Our expenses and settlement costs relating to the SEC and Bureau investigations decreased 69.1% to $200,000 compared to $648,000 in 2003. Our settlement with the SEC and Bureau that was effective in December 2004 required a payment made on March 1, 2005 of $280,000 to our shareholders as of March 31, 2003. Our former President was financially responsible for $160,000 of that amount, and we were responsible for the balance. We expect that our 2005 expenses in connection with implementing the settlement will be substantially less than our 2004 investigation related expenses.

Interest Expense. For the year ended December 31, 2004, our consolidated interest expense was approximately $2.0 million which was not a material change from 2003. Interest expense in both years primarily represents interest on long-term indebtedness of the Company and our three regulated water utilities as discussed in Note 3 to the Notes to Consolidated Financial Statements.

Results of Operations—2003 Compared to 2002

Overview. For the year ended December 31, 2003, our consolidated net income was $1.2 million, compared to net income of $2.3 million in 2002, a decrease of nearly 47%. Basic income per share was $.52 for 2003, a $.46 per share decrease from 2002. This decrease in consolidated net income was primarily due to

- $498,000 of expenses related to the SEC and Bureau regulatory investigations discussed above;
- $235,000 of expenses related to preliminary steps taken by the City of Nashua prior to commencing in March 2004 the eminent domain proceeding discussed above; and
- $231,000 of expenses incurred relating to the terminated merger agreement with Aqua America discussed above.

Excluding the effect of those expenses in 2003 and 2002, consolidated net income was $2.0 million, or $.84 per share, and $3.5 million, or $1.48 per share, respectively. We believe that a presentation of net income excluding these expenses is useful to investors because it is more indicative of our financial performance in the ordinary course of business for the reasons discussed above. See "—Results of Operations—2004 Compared to 2003."

Further contributing to this decrease in net income was an 8.7% decrease in consolidated revenues primarily from a decline in both our regulated water and real estate business revenues.

Water Utility Operations. On a combined basis, net income of our three utilities in calendar year 2003 was approximately $1.2 million, a decrease of $1.1 million from 2002 principally due to an increase in distribution, production and administrative costs as discussed below and to a lesser extent by an increase in rainfall during the summer of 2003.

Utility operating revenues for 2003 decreased to $18.7 million, or less than 1% from 2002. For 2003, approximately 82%, 16% and 2% of our total utility operating revenues were generated by Pennichuck, Pennichuck East and Pittsfield, respectively, as shown in the following table.

	2003	2002	Change
Pennichuck	$15,254,000	$15,344,000	$ (90,000)
Pennichuck East	2,979,000	3,098,000	(119,000)
Pittsfield	447,000	388,000	59,000
Total	$18,680,000	$18,830,000	$(150,000)

The overall decline in our water revenues reflects the greater level of precipitation experienced in the regions served by our water utilities during the third quarter of 2003 over the third quarter of 2002. We typically experience our greatest demand during the third quarter as a result of irrigation activities, particularly in July and August. Total rainfall during the third quarter of 2003 was nearly 14 inches compared to 7.3 inches in the third quarter of 2002. As a result, the combined billed consumption of our three utilities declined by 2.9% from 2002.

The negative impact on water revenues was partially offset by the positive effect of a 5.76% rate increase approved by the New Hampshire PUC and implemented by Pennichuck in April 2002 and a 2.0% increase in customers over 2002, resulting in a total combined customer base of approximately 29,400 as of December 31, 2003.

For the year ended December 31, 2003, utility operating expenses increased by $1.8 million, or 13.9%, to $14.6 million as shown in the table below.

	2003	2002	Change
Operations & maintenance	$ 9,406,000	$ 8,057,000	$1,349,000
Depreciation & amortization	2,843,000	2,639,000	204,000
Taxes other than income taxes	2,318,000	2,089,000	229,000
Total	$14,567,000	$12,785,000	$1,782,000

The combined increase in our utilities' operating expenses over 2002 was chiefly the result of the following:

- $800,000 of increased general and administrative costs primarily relating to costs for employee benefits, property and casualty insurance, directors' and officers' liability insurance and administrative salaries;

- recognition of approximately $244,000 in additional depreciation and amortization charges resulting from approximately $18.6 million of new capital investment over the past three years;

- $240,000 of increased purification and treatment costs in our core Pennichuck system reflecting higher purchased water, power, chemical and labor costs;

- an increase in local and state property taxes totaling $209,000 as a result of additional taxable assets placed in service within the utilities' franchise areas during the past year and a $115,000 tax abatement recorded in the third quarter of 2002 from the State of New Hampshire; and

- an increase of approximately $150,000 in distribution system expenses as a result of colder temperatures experienced in the first quarter of 2003 and the utilities' comprehensive system-wide flushing program undertaken in the second and third quarters of 2003 as well as increased labor costs.

These increased costs are expected to be embedded in the utilities' future cost of providing water service. As such, our utilities will continue to seek future rate relief to recover these increasing costs.

For calendar year 2003, 83%, 14% and 3% of the combined utilities' operating income was provided by Pennichuck, Pennichuck East and Pittsfield, respectively, which was comparable to 2002.

Water Management Services. The following table provides a breakdown of revenues from our non-regulated, water-related contract operations for the years ended December 31, 2003 and 2002:

	2003	2002	Change
Municipal contracts	$1,191,000	$1,011,000	$180,000
Community system contracts	235,000	249,000	(14,000)
Watertight program	184,000	165,000	19,000
Miscellaneous	92,000	34,000	58,000
Total	$1,702,000	$1,459,000	$243,000

Of the $180,000 increase in contract revenue from municipal contracts, approximately $156,000 resulted from additional contract fees billed by Service Corporation for unplanned work performed under those contracts. The combined base annual fees under those two municipal contracts represent approximately $765,000 and

$741,000 for the years ended December 31, 2003 and 2002, respectively, with the balance of $426,000 and $270,000 representing fees earned for services performed in addition to the base scope of services for 2003 and 2002, respectively.

Contract revenues from community system contracts for 2003 were $235,000, representing 67 operating contracts at the end of 2003 compared to 52 such contracts at the end of 2002. The decline in community system contract revenues for the year resulted from lower fees from unplanned services which totaled $116,000 in 2003 and $140,000 in 2002. For 2003 and 2002, Service Corporation revenues included $184,000 and $165,000, respectively, for fees earned under its Watertight program. At the end of 2003, approximately 3,400 customers were enrolled in this program, representing a 27% increase over 2002.

Expenses associated with our contract operations were $1.5 million and $1.2 million for 2003 and 2002, respectively, comprised primarily of direct costs for servicing our various operating contracts and allocated intercompany charges for general and administrative support for contract operations. The increased expenses from 2002 to 2003 resulted principally from (i) additional direct expenses of $146,000 for servicing the operating contracts and (ii) an increase of $126,000 in allocated intercompany charges due to additional Company and Pennichuck resources utilized for the operation and development of Service Corporation's various activities.

Real Estate Development and Investment. For the year ended December 31, 2003, revenues from Southwood's real estate activities were $949,000 compared to $3.1 million in 2002. In the table below, we show the major components of real estate revenues during 2003 and 2002.

	2003	2002
Land sales:		
Southwood Corporate Park	—	$2,427,000
Folsom Property	$257,000	—
HECOP IV	—	168,000
Westwood Park LLC	150,000	—
Other	125,000	179,000
	532,000	2,774,000
Income from unconsolidated equity investments	417,000	314,000
Total	$949,000	$3,088,000

As shown above, the decrease in our real estate revenues resulted principally from the sale of approximately 40 acres in Southwood Corporate Park in January 2002 to Winstanley Enterprises Inc. ("Winstanley") under the terms of a 1995 option agreement between Southwood and Winstanley.

In January 2003, Southwood sold a 67 acre parcel of unimproved land located in Merrimack, New Hampshire to the Folsom Development Corporation for approximately $1.5 million. Under the terms of that sale, Southwood received approximately $257,000 in cash and a long-term note receivable of $1.22 million. The pre-tax gain on that sale was approximately $1.5 million, of which $257,000, representing the net cash received at closing, is included in "Revenues—Real Estate Operations" in the accompanying Consolidated Statements of Income. The remaining gain of approximately $1.2 million, represented by the note receivable, was deferred, according to the requirements established under Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate."

At December 31, 2003 and 2002, Southwood had a 50% ownership interest in four joint ventures, as discussed above. See "—Results of Operations—2004 Compared to 2003." For the year ended December 31, 2003, Southwood's share of pre-tax earnings and distributions from these joint ventures was approximately $417,000 and $67,500, respectively, compared to pre-tax earnings of $314,000 and distributions of $175,000 for calendar year 2002. The improvement in the joint ventures' pre-tax earnings resulted primarily from interest cost savings of $137,000 on the re-refinancing of their mortgages during 2002. Southwood's share of pre-tax earnings is included under "Revenues—Real Estate Operations" in the accompanying Consolidated Statements of Income.

Southwood also has a 60% ownership in Westwood Park LLC, a consolidated joint venture formed in 1997 to develop a tract of land in northwest Nashua. During 2003, Westwood received $150,000 representing escrowed funds from a land sale which occurred in 2000.

Expenses associated with our real estate operations were $104,000 and $1.8 million for the years ended December 31, 2003 and 2002, respectively. The principal reason for this significant decrease was the recognition of approximately $1.7 million of direct infrastructure costs associated with the Southwood Corporate Park land sale in 2002 discussed above. Southwood's 2003 operating expenses of approximately $104,000 consisted primarily of $9,000 of property taxes associated with its remaining landholdings and $65,000 for general and administrative costs.

Eminent Domain-Related Expenses. Our costs incurred in defending against the City of Nashua's eminent domain proceeding were $235,000 in 2003. We did not incur any such expenses in 2002.

Merger and Other Expenses. Expenses attributable to the terminated merger agreement with Aqua America and the SEC and Bureau investigations and settlement declined significantly in 2003 compared to 2002. For 2003, those expenses were comprised of approximately $648,000 for legal and other fees as well as estimated settlement costs relating to the regulatory investigations and $231,000 relating to the terminated merger agreement with Aqua America. For 2002, those expenses related primarily to investment banking, legal and other fees associated with the terminated merger agreement with Aqua America. We entered into the merger agreement in April 2002 and terminated it in February 2003.

Interest Expense. For the year ended December 31, 2003, our consolidated interest expense was approximately $2.0 million which was not a material change from 2002. Interest expense in both years primarily represents interest on long-term indebtedness of the Company and our three regulated water utilities as discussed in Note 3 to the Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

Overview. Our primary sources of funds are cash flow from utility operations, cash proceeds from the sale of portions of our real estate holdings, borrowings pursuant to our bank revolving credit facility and proceeds from the sale of long-term debt and equity securities. Our primary uses of funds are capital expenditures associated with our continuous utility construction program, dividends on our common stock payable as and when declared by our board of directors and repayments of principal on our outstanding debt obligations, whether pursuant to scheduled sinking fund payments or final maturities.

For the past several years, cash flows from operations have largely fluctuated based on four factors: (i) weather, (ii) amount and timing of rate increases, (iii) gain recognized on the sale of Southwood land, especially during 2000, 2001, 2002 and 2004, as described above, and (iv) significant expenses associated with the proposed merger with Aqua America that terminated in 2003, the costs associated with the City of Nashua's ongoing eminent domain proceeding and costs related to the SEC and Bureau regulatory investigations that were settled in December 2004, each discussed in more detail above. For 2004, net cash provided by operating activities decreased by $1.3 million, or 29.8%, for the reasons discussed above under "—Results of Operations—2004 Compared to 2003." Net cash used in investing activities decreased by $1.8 million, or 25.1%, compared to 2003 due to reduced capital expenditures and an increase in the proceeds from the sale of land.

For the period 2000 to 2004, the majority of our funds were provided through a combination of cash flow from utility operations and sales of portions of our real estate holdings. We supplemented these sources of funds beginning in the fourth quarter of 2003 and throughout 2004 by drawing down a portion of the funds available under our bank revolving credit facility. In addition, we also generated approximately $85,000 during the period 2000 to 2004 through the issuance of new shares of common stock under our Dividend Reinvestment Plan.

2005 to 2008 Capital Expenditures Program. We expect our capital expenditures to increase substantially during the 2005 to 2008 period, as discussed elsewhere in this prospectus. See "Risk Factors" and "Our Business." The following table summarizes our capital expenditures and other funds requirements for the 2005 to 2008 period.

	2005	2006	2007	2008
Utility plant additions	$14,500,000	$23,300,000	$11,400,000	$5,100,000
Other	2,400,000	2,000,000	2,000,000	2,000,000
Total	$16,900,000	$25,300,000	$13,400,000	$7,100,000

	2001	2002	2003	2004
Utility plant additions	$ 8,200,000	$ 8,400,000	$ 9,000,000	$7,500,000
Other	—	—	—	—
Total	$ 8,200,000	$ 8,400,000	$ 9,000,000	$7,500,000

Our water utilities are capital intensive businesses. We are engaged in continuous construction programs at our utility subsidiaries primarily for water distribution system repair, rehabilitation and replacement, water storage facility maintenance and additions, and more recently, water supply security. For the period 2001 to 2004, capital expenditures for water distribution, storage, and supply totaled $33.1 million, or approximately $8.3 million per year. For 2005 and the period 2006 to 2008, comparable expenditures are expected to total $14.5 million and $39.8 million in current dollars, respectively, or approximately $13.6 million per year.

In addition to our recurring programs, we are embarking on two major new construction initiatives. The first is an upgrade of our water treatment plant that is necessary in order for the plant to meet more stringent, federally mandated safe drinking water standards. The water treatment plant project will commence in the second half of 2005 and is expected to be completed during 2008. Capital expenditures associated with the water treatment plant upgrade project are expected to total approximately $8.9 million for 2005 and $21.6 million for 2006 to 2008.

The second is the installation of a radio meter reading (RMR) system. The RMR system will enable a switch from quarterly to monthly billing and will facilitate the introduction of conservation-based pricing during periods of extremely heavy consumption (the summer months). We will pilot the RMR system in 1,000 residential customer premises in 2005 with a full system roll-out, based upon the success of the pilot, scheduled for 2006 and 2007. Capital expenditures for the RMR system are expected to be $125,000 in 2005 and $2.1 million for 2006 to 2008.

In addition to the upgrade of our water treatment plant and the installation of the RMR system, we expect to incur other capital expenditures aggregating $5.5 million in 2005 and $16.1 million for 2006 to 2008. These other expenditures include, in part, potential acquisition of small regional regulated water utility systems, consistent with our record of prior acquisitions, and potential real estate-related acquisitions by Southwood.

2005-2008 External Financing Requirements. Due to the significant increases in our utility construction program commencing in 2005-2008 and as described above, we expect that only 25% to 30% of our funding requirements will be provided by cash flow from our operations (after payment of dividends on common stock). We expect that the balance of our funding will be obtained through long-term debt arrangements and the issuance of common stock. Our timing and mix of future debt and equity financing is subject to a number of factors including, but not limited to (i) debt and equity market conditions; (ii) the need to maintain a balanced capital structure in order to preserve financial flexibility and to manage the overall cost of capital; and (iii) certain debt issuance covenants as contained in our outstanding loan agreements. There is no assurance that we will be able to complete all or any of the future debt and equity financings described below or to complete them on a timely basis.

The receipt of timely and adequate rate relief will also be critically important in providing us cash flow from operations and the ability to access credit and permanent capital, both debt and equity, at reasonable costs and terms. We are unable, however, to predict the outcome of our future rate relief filings.

Recent and Contemplated Long-Term Debt Arrangements. In January 2005, we issued $6.6 million of long-term, fixed rate tax-exempt debt, with $3.0 million representing new funds and the balance utilized to optionally redeem a like amount of higher cost tax-exempt debt.

In March 2005, we issued $5.0 million of 5-year taxable debt to an insurance company pursuant to a private placement transaction. A portion of the proceeds ($1.5 million) represented new funds and the balance ($3.5 million) was utilized to fund the maturity of a like amount of higher cost taxable debt.

Effective March 22, 2005, we restructured and expanded our debt arrangements with Bank of America, increasing our revolving credit facility to $16.0 million from $6.5 million. The Bank of America facility permits us to borrow, repay and re-borrow, in varying amounts and from time to time at our discretion through December 31, 2007, subject to the terms and conditions of the facility. The new arrangement replaced one that was scheduled to expire in April 2005.

In late March 2005 we received a commitment from Bank of America, the lender for an existing $4.5 million loan to the Company and Pennichuck East, as co-borrowers, due April 8, 2005, to extend the loan to a new maturity date on or before December 31, 2009. The extension commitment contains covenants substantially similar to the Company's new revolving credit facility as described above. The Company's board of directors is expected to approve the transaction subject to New Hampshire PUC approval. We have filed a petition with the New Hampshire PUC seeking approval of the extension and a related swap transaction to convert the loan to a fixed interest rate on or before April 8, 2005.

We also have access, from time to time, to low cost long-term debt from two sources. First, we have applied and will continue to apply for long-term debt funds directly from the State of New Hampshire under the State's Revolving Fund program (SRF). Funds provided under the SRF loans carry long-term fixed costs at interest rates set with reference to various Municipal Bond Indices, which rates are generally below the rates for comparable U.S. Treasury securities of like maturity. As of March 29, 2005, we had three outstanding SRF loans aggregating approximately $850,000. In the first quarter of 2005, we received a preliminary commitment from the State for a new SRF loan in the amount of $750,000. The new SRF loan is expected to close at or around mid-year 2005.

Our other source of low cost, long-term debt is tax-exempt debt issued on our behalf by the New Hampshire Bond Finance Authority (BFA). The BFA acts solely as a passive conduit to the tax-exempt bond markets with us acting as the obligor for the associated tax-exempt debt. At March 29, 2005 we had six outstanding BFA (or its predecessor entity) issues aggregating $18.6 million.

2005 to 2008 Tax-Exempt Bond Financing Plan. We intend to raise approximately $50 million in one or more BFA debt financings in 2005 through 2008. The BFA recently gave preliminary approval for the financing. The proposed amount would cover substantially all of our capital expenditures for 2005 through 2008 (approximately $50 million of a total of $54.3 million), including our water treatment plant upgrade project, various water distribution, storage, supply maintenance, rehabilitation and replacement projects and the proposed RMR system. Such financing requires certain approvals including, but not limited to, an allocation of a portion of the State's annual volume cap for certain types of tax-exempt bond offerings including offerings of the type we are contemplating. There is no assurance that we will be able to complete the contemplated BFA financings on a timely basis or at all.

Significant Financial Covenants. Our new revolving credit facility contains three financial maintenance tests which must be met on a quarterly basis. These maintenance tests are as follows:

(1) our Fixed Charge Coverage Ratio must exceed 1.2x;

(2) our Tangible Net Worth must exceed $25 million plus new equity proceeds; and

(3) our Funded Debt must not exceed 65% of our Total Capitalization.

Also, various Pennichuck and Pennichuck East loan agreements contain tests that govern the issuance of additional indebtedness. These issuance tests are as follows:

(1) to issue short-term debt, our Total Debt must not exceed 65% of our Total Capital (unless the new short-term debt is subordinated to existing debt);

(2) to issue long-term debt, our Funded Debt must not exceed 60% of our Property Additions; and

(3) to issue long-term debt, our Earnings Available for Interest divided by our Interest Expense must exceed 1.5x.

Under Pennichuck's most restrictive covenant, approximately $5.9 million of its retained earnings was unrestricted for payment or declaration of common dividends to the Company at December 31, 2004.

As of March 29, 2005, we were in compliance with all of our financial covenants.

Contemplated Equity Offering. We are planning to conduct a public offering of our common stock during the second quarter of 2005 pursuant to a registration statement that we expect to file with the SEC on or about March 31, 2005. We anticipate that the net proceeds to us from that offering will be approximately $10 million to $12 million. We intend to use the net proceeds primarily to fund utility capital additions and for other general corporate purposes. Pending such use, we plan to repay indebtedness under our revolving credit facility with Bank of America. There can be no assurance that the offering will be completed in 2005 or at any later time.

Off Balance Sheet Arrangements

At December 31, 2004 and 2003, Southwood had a 50% ownership interest in four joint ventures organized as limited liability companies. The remaining 50% ownership interest in each of the joint ventures is held by John P. Stabile II, a local developer with whom Southwood has also participated in four other residential joint ventures during the past ten years. The formation of these joint ventures provides Southwood with an opportunity to develop its landholdings in such a manner as to provide for a long-term income stream through commercial rental activities. Additionally, the joint ventures, as legal entities, mitigate the financial risk associated with sole ownership of developed commercial properties by Southwood. The joint ventures, whose assets and liabilities are not included in the accompanying Consolidated Balance Sheets, own certain commercial office buildings on which there are outstanding mortgage notes totaling $9.0 million and $9.2 million as of December 31, 2004 and 2003, respectively. Distributions from the joint ventures have from time to time during the past ten years been a significant source of funds to support our dividend payments to shareholders. We account for Southwood's investment in the four current joint ventures using the equity method of accounting, meaning that we recognize on a current basis 50% of each joint venture's operating results. Those results reflect ongoing carrying costs such as maintenance and property taxes. Information about our revenues, expenses and cash flows arising from the joint ventures is included in Note 4 of the Notes to Consolidated Financial Statements.

Contractual Obligations

The following table discloses aggregate information about our contractual obligations as of December 31, 2004, and the periods in which payments are due, adjusted for the implementation of our expanded and restructured credit facility with Bank of America described above:

	Total	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years
Long-term debt	$30,610,214	$13,668,152[1]	$1,137,263	$1,938,594	$13,866,205
Capital leases	25,484	21,109	4,375	—	—
Operating leases	215,022	53,079	107,917	52,263	1,763
Pension and post retirement contributions [2]	2,776,000	188,000	395,000	443,000	1,750,000
Purchase obligations [3]	—	—	—	—	—
Total	$33,626,720	$13,930,340	$1,644,555	$2,433,857	$15,617,968

(1) Includes $13.3 million of debt that had been due within less than one year as of December 31, 2004, which had either been refinanced with long-term debt or was the subjet of firm commitments to refinance with long-term debt.

(2) Pension and post retirement contributions cannot be reasonably estimated beyond 2005 and may be impacted by such factors as return on pension assets, changes in the number of plan participants and future salary increases.

(3) Pennichuck has a Wholesale Water Agreement (the "Agreement") with Manchester (NH) Water Works ("MWW") to purchase water from MWW through six metering points for various community water systems owned by Pennichuck and Pennichuck East. The Agreement, amended in February 2003, has a 25-year term and provides for an average daily flow to Pennichuck and Pennichuck East of up to 2.1 million gallons per day ("mgd") with a maximum daily flow rate of 3.5 mgd. Pennichuck and Pennichuck East purchase water at a rate established by MWW for all of its non-Manchester customers. The current rate, effective January 1, 2005, is $0.87 per one hundred cubic feet ("ccf") in areas where fire protection is not provided by MWW and $1.14 per ccf where fire protection is provided. The Agreement requires that Pennichuck and Pennichuck East pay a one-time source development charge ("SDC") of $1.14 for each gallon of the 2.1 million gallons of the average daily flow. To date, Pennichuck and Pennichuck East had achieved a combined peak average daily flow of 894,311 gallons. The SDC is re-calculated annually to reflect any increases in average daily flow and, if the flow is increased, Pennichuck and Pennichuck East pay the SDC for the incremental demand. Any incremental SDC is payable in January of each year. SDC payments began in 1989 and as of December 31, 2003, the total SDC paid to MWW was $1,050,100, which allows the Company to draw an average daily flow of up to 921,140. The incremental SDC paid in 2003 and 2002 was $30,585 and $88,320, respectively. There was no SDC due in January 2004 since the average daily flow in 2003 was less than the previous high average usage level established in 2002. Any future payments to MWW would be subject to an increase in average daily flow. No future obligations under this contract are disclosed since such future payments are based on future water consumption levels that are affected by weather conditions and customer growth.

In April 2004, Pennichuck entered into a long-term lease arrangement with HECOP III, LLC for approximately 13,000 square feet of office space located in Merrimack, New Hampshire which serves as our headquarters. Southwood holds a 50% ownership interest in HECOP III, LLC and the remaining ownership interests are held by John P. Stabile II, who is also the holder of ownership interests in three other LLC joint ventures with Southwood as discussed above.

Pension Plan. We maintain a defined benefit pension plan covering substantially all of our employees. The accounting for this plan under FASB 87, *"Employer's Accounting for Pensions,"* requires that we use key assumptions when computing the estimated annual pension expense. These assumptions are (i) the discount rate applied to the projected benefit obligation, (ii) the long-term rate of return on plan assets and (iii) the long-term rate of future increases in compensation. A lower discount rate increases the present value of our pension obligations and our annual pension expense. We reduced our discount rate from 6.25% to 5.75% for 2004, reflecting the overall change in market conditions. Our expected long-term rate of return on pension plan assets is based on the plan's expected asset allocation, expected returns on various classes of plan assets as well as historical returns. We assumed that our long-term rate of return on pension plan assets was 8% in 2004 and 2003 and 9% in 2002. In addition, we assumed an increase in participant compensation levels of 3%, 4% and 5% in 2004, 2003 and 2002, respectively. These key assumptions are reviewed annually with our actuary and investment advisor and are updated to reflect the plan's experience. Actual results in any given year will often differ from our actuarial assumptions because of economic and other conditions which may impact the amount of pension expense we recognize.

At December 31, 2003, we had a minimum pension liability of approximately $78,000, representing the excess of our pension liabilities over our plan assets. However, during 2004, the rate of return on plan investments was approximately 17.2% compared to a negative rate of return of 7.4% in 2003. As a result, the market value of our plan assets was slightly lower than our accumulated benefit obligation by approximately $606,000 at December 31, 2004. We recorded an adjustment of approximately $528,000 which resulted in a maximum pension liability of approximately $606,000 at the end of 2004 and a credit, net of taxes, of approximately $317,000 to Other Comprehensive Income. Future adjustments to Other Comprehensive Income will be affected by changes in realized returns on pension plan assets, contributions to pension assets by us and changes in discount rates.

Dividend Reinvestment and Common Stock Purchase Plan. We offer a Dividend Reinvestment and Common Stock Purchase program that is available to our shareholders and residential utility customers residing in New Hampshire. Under this program, our shareholders may reinvest all or a portion of their common dividends into shares of common stock at prevailing market prices. We also accept optional cash payments to purchase additional shares at 100% of the prevailing market prices. This program has provided us with additional common equity of $38,000 in 2004 and $47,000 in 2002. No additional common equity was provided with respect to this program during 2003.

Environmental Matters. Our water utility subsidiaries are subject to the water quality regulations set forth by the EPA and the New Hampshire Department of Environmental Services ("DES"). The EPA is required to periodically set new maximum contaminant levels for certain chemicals as required by the federal Safe Drinking Water Act ("SDWA"). The quality of our treated water currently meets or is better than all standards set by the EPA and the DES. However, increased monitoring and reporting standards have led to additional operating costs for us. Any additional monitoring and testing costs arising from future EPA and DES mandates should eventually be recovered through water rates in our utilities' future rate filings.

Pennichuck's filtration plant in Nashua is impacted by the Interim Enhanced Surface Water Treatment Rule, which established a new turbidity standard of 0.3 Nephelometric Turbidity Units or NTU. Turbidity is a measure of sediment or foreign particles that are suspended in the water. Pennichuck has committed approximately $1.6 million in its 2005 capital budget to complete the design phase required for this project. An additional $7.1 million has been allocated in its 2005 budget to initiate construction of required improvements. As discussed earlier, Pennichuck estimates the total cost to comply with this new standard to be approximately $32 million over the next three years although such estimates are subject to any future changes in the Rule and changes in design and construction that may be required.

Three of Pennichuck's small community water systems have wells that produce water with arsenic levels in excess of the new standard of 10 parts per billion which is effective in February 2006. Pennichuck will install arsenic treatment systems at these locations, however, the expenditures necessary to comply with this standard are not expected to be a material part of our future capital expenditure program. Pennichuck's remaining community water systems have wells that produce water meeting the new arsenic standard.

Capital expenditures associated with complying with federal and state water quality standards have historically been recognized and approved by the New Hampshire PUC for inclusion in our water rates, though there can be no assurance that the New Hampshire PUC will approve future rate increases in a timely or sufficient manner to cover our capital expenditures.

New Accounting Standards

In January 2003, the FASB issued Interpretation No. 46, *"Consolidation of Variable Interest Entities,"* as amended and revised in December 2003 ("FIN 46R"), which addresses the consolidation of a variable interest entity ("VIE") by a business enterprise that is the primary beneficiary. A VIE is an entity that does not have sufficient equity investment at risk to permit it to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest. The primary beneficiary of a VIE is the enterprise with the majority of the risks or rewards associated with the VIE. Application of FIN 46R is required for all potential VIEs that are referred to as special-purpose entities for periods ending after December 15, 2003 and, for all other types of entities that are potential VIEs that are not referred to as special purpose entities, the consolidation requirements apply for periods ending after March 15, 2004. We have assessed the impact of FIN 46R and determined that we do not have any VIEs for which the Company is the primary beneficiary requiring consolidation of the entity as of December 31, 2004. For all other types of entities, the Company is still assessing the impact that FIN 46R will have on its consolidated financial position.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, "Share Based Payment" ("SFAS 123R"). SFAS 123R addresses the accounting for transactions in which a company receives employee services in exchange for (a) equity instruments of the company or (b) liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123R also eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and requires that such transactions be accounted for using a fair-value-based method. SFAS 123R is effective for periods beginning after June 15, 2005. The Company is currently assessing the impact that SFAS 123R will have on its consolidated financial statements.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information regarding market risk of the Company and our subsidiaries is presented in “Note 3—Debt” and “Note 5—Fair Value of Financial Instruments” in the Notes to the Consolidated Financial Statements included elsewhere in this report.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Pennichuck Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity, other comprehensive income and cash flows present fairly, in all material respects, the financial position of Pennichuck Corporation and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) on page 80, present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts

March 3, 2005

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	December 31, 2004	December 31, 2003
ASSETS		
Property, Plant and Equipment		
Land	$ 1,136	$ 1,196
Buildings	21,912	21,016
Equipment	96,803	92,556
Construction work in progress	2,840	718
	122,691	115,486
Less accumulated depreciation	(31,805)	(29,759)
	90,886	85,727
Current Assets		
Cash and cash equivalents	969	391
Accounts receivable, net of allowance of $37 in 2004 and 2003	1,478	1,332
Unbilled revenue	1,787	1,663
Refundable income taxes	313	1,145
Materials and supplies, at cost	886	726
Prepaid expenses and other current assets	955	519
	6,388	5,776
Other Assets		
Deferred land costs	1,017	849
Deferred charges and other assets	3,094	3,087
Investment in real estate partnerships	742	547
Note receivable	—	1,224
	4,853	5,707
Total Assets	$102,127	$ 97,210

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

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS—CONTINUED
(In thousands, except share and per share data)

	December 31, 2004	December 31, 2003
STOCKHOLDERS' EQUITY AND LIABILITIES		
Stockholders' Equity		
Common stock—$1 par value		
Authorized—11,500,000 shares in 2004 and 2003		
Issued—2,414,569 and 2,397,092 shares, respectively		
Outstanding—2,413,617 and 2,396,140 shares, respectively	$ 2,415	$ 2,397
Additional paid in capital	15,631	15,208
Retained earnings	12,933	13,178
Accumulated other comprehensive income	(690)	(473)
	30,289	30,310
Less treasury stock, at cost; 952 shares	(138)	(138)
	30,151	30,172
Minority interest	6	8
Preferred stock, no par value, 100,000 shares authorized, no shares issued in 2004 and 2003	—	—
Commitments and contingencies (Note 9)		
Long-term debt, less current portion	16,946	26,879
Current Liabilities		
Line of credit	3,800	2,000
Current portion of long-term debt	9,889	368
Accounts payable	1,083	913
Accrued interest payable	369	370
Other current liabilities	2,227	1,773
	17,368	5,424
Deferred Credits and Other Reserves		
Deferred income taxes	9,735	8,552
Deferred gain on land sale	—	1,224
Deferred investment tax credits	933	966
Regulatory liability	1,119	1,107
Post-retirement health benefit obligation	643	560
Accrued pension liability	606	78
Other liabilities	335	345
	13,371	12,832
Contributions in Aid of Construction	24,285	21,895
Total Stockholders' Equity and Liabilities	$102,127	$97,210

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, 2004	2003	2002
Revenues			
Water utility operations	$ 19,601	$ 18,680	$ 18,830
Real estate operations	1,437	949	3,088
Water management services	1,932	1,702	1,459
Other	55	57	45
	23,025	21,388	23,422
Operating Expenses			
Water utility operations	15,130	14,567	12,785
Real estate operations	282	104	1,750
Water management services	1,369	1,522	1,239
	16,781	16,193	15,774
Operating Income	6,244	5,195	7,648
Eminent domain expenses	(1,202)	(235)	—
Merger and other expenses	(162)	(879)	(1,946)
Other income	31	56	65
Interest expense	(1,952)	(1,969)	(1,978)
Income Before Provision for Income Taxes	2,959	2,168	3,789
Provision for Income Taxes	1,140	888	1,450
Net Income Before Minority Interest	1,819	1,280	2,339
Minority Interest in Loss (Earnings) of Westwood Park LLC, net of tax	1	(33)	2
Net Income	$ 1,820	$ 1,247	$ 2,341
Earnings Per Common Share:			
Basic	$ .76	$ .52	$ .98
Diluted	$ .76	$ .52	$ .97
Weighted Average Shares Outstanding:			
Basic	2,401,367	2,392,919	2,390,942
Diluted	2,409,324	2,398,198	2,411,781

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

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Common Stock—Shares	Common Stock—Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balances at December 31, 2001	2,389,019	$2,389	$15,098	$13,544	$(128)	$(308)	$30,595
Net income				2,341			2,341
Dividend reinvestment plan	1,789	2	45				47
Common dividends declared—$.813 per share				(1,944)			(1,944)
Exercise of stock options	2,583	2	27		(16)		13
Other comprehensive income						(619)	(619)
Balances at December 31, 2002	2,393,391	2,393	15,170	13,941	(144)	(927)	30,433
Net income				1,247			1,247
Common dividends declared—$.84 per share				(2,010)			(2,010)
Exercise of stock options	3,701	4	38		6		48
Other comprehensive income						454	454
Balances at December 31, 2003	2,397,092	2,397	15,208	13,178	(138)	(473)	30,172
Net income				1,820			1,820
Dividend reinvestment plan	1,527	2	36				38
Common dividends declared—$.86 per share				(2,065)			(2,065)
Contribution of common stock to pension plan	15,750	16	384				400
Exercise of stock options	200		3				3
Other comprehensive income						(217)	(217)
Balances at December 31, 2004	2,414,569	$2,415	$15,631	$12,933	$(138)	$(690)	$30,151

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,		
	2004	2003	2002
Net income	$1,820	$1,247	$ 2,341
Other comprehensive income:			
Additional minimum pension liability adjustment	(656)	581	(1,020)
Unrealized gain (loss) on derivatives	4	(84)	(476)
Reclassification of net losses realized in net income	275	257	244
Income tax benefit (expense) relating to other comprehensive loss	160	(300)	633
	(217)	454	(619)
Comprehensive Income	$1,603	$1,701	$ 1,722

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,		
	2004	**2003**	**2002**
Operating Activities:			
Net income	$ 1,820	$ 1,247	$ 2,341
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,117	2,914	2,775
Gain on sale of land	(1,224)	(257)	(765)
Amortization of deferred investment tax credits	(33)	(33)	(33)
Provision for deferred income taxes	1,183	1,918	863
Changes in assets and liabilities:			
Increase in accounts receivable and unbilled revenue	(270)	(142)	(258)
(Increase) decrease in refundable income taxes	832	(811)	(209)
Increase in materials and supplies	(160)	(137)	(225)
Increase in prepaid expenses	(436)	(29)	(10)
Increase in deferred charges and other assets	(379)	(572)	(139)
Increase (decrease) in accounts payable and accrued expenses	553	487	(631)
Increase (decrease) in other	533	(320)	291
Net cash provided by operating activities	5,536	4,265	4,000
Investing Activities:			
Purchases of property, plant & equipment	(5,438)	(7,181)	(5,274)
Contributions in aid of construction	140	178	157
Decrease in restricted cash	—	151	—
Net decrease in notes receivable	—	605	221
Proceeds from sale of land	1,224	257	2,426
Net change in investment in real estate partnerships and deferred land costs	(364)	(399)	(269)
Net cash used in investing activities	(4,438)	(6,389)	(2,739)
Financing Activities:			
Advances on line of credit	1,800	2,000	—
Payments on long-term debt	(368)	(365)	(351)
Proceeds from long-term borrowings	71	399	145
Proceeds from issuance of common stock and dividend reinvestment plan	41	47	61
Dividends paid	(2,064)	(2,010)	(1,944)
Net cash provided by (used in) financing activities	(520)	71	(2,089)
Decrease in cash	578	(2,053)	(828)
Cash at beginning of year	391	2,444	3,272
Cash at end of year	$ 969	$ 391	$ 2,444

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

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Significant Accounting Policies

Pennichuck Corporation (the "Company") is an investor-owned holding company located in Nashua, New Hampshire with three wholly owned operating subsidiaries, Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. ("Pittsfield"), involved in regulated water supply and distribution in Nashua and towns throughout southern and central New Hampshire; non-regulated, water-related services conducted through Pennichuck Water Service Corporation (the "Service Corporation"); and real estate management and development activities conducted through The Southwood Corporation ("Southwood").

Pennichuck, Pennichuck East and Pittsfield (collectively referred to as the "Company's utility subsidiaries") are engaged principally in the gathering and distribution of potable water to approximately 29,900 customers in southern and central New Hampshire. The Company's utility subsidiaries, which are regulated by the New Hampshire Public Utilities Commission (the "NHPUC"), are subject to the provisions of Statement of Financial Accounting Standards No. ("SFAS") 71, "*Accounting for the Effects of Certain Types of Regulation*." The Service Corporation is involved in providing non-regulated, water-related services to over 8,600 customers while Southwood owns, manages and develops real estate.

(a) Principles of Consolidation

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

(b) Investment in Joint Ventures

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 "Revenues-Real estate operations" 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 4, "Equity Investments in Unconsolidated Companies" for further discussion of its equity investments.

(c) 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.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash in banks, demand deposits and investments in short-term money market funds with initial maturities, when purchased, of three months or less. Included in cash and cash equivalents are funds received in escrow pursuant to the sale of a building in accordance with the tax free exchange provisions of Internal Revenue Code Section 1031. This building previously served as the Company's corporate office until its relocation to a new leased facility on April 30, 2004. The Company sold this building on November 9, 2004 for approximately $800,000 and is currently identifying like-kind property acquisitions in settlement of the Internal Revenue Code provisions.

(e) Inventory

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

(f) Property, Plant and Equipment

Property, plant and equipment, which includes principally the water utility assets of the Company's utility subsidiaries, is recorded at cost plus an allowance for funds used during construction on major, long-term projects. The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets including property funded with contributions in aid of construction. The useful lives range from 5 to 84 years and the average composite depreciation rate was 2.66% in 2004, 2.67% in 2003 and 2.69% in 2002. Depreciation expense in 2004, 2003 and 2002 was $3,137,658, $2,937,358 and $2,730,486, respectively. The components of Property, Plant and Equipment at December 31, 2004 and 2003 are as follows:

	2004	2003	Useful Lives
	($000's)		
Utility Property:			
Land	$ 1,125	$ 1,125	—
Source of supply	22,422	20,579	34 - 75
Pumping & purification	9,401	9,183	15 - 35
Transmission & distribution	60,170	57,692	40 - 84
General, including services, meters, hydrants and other equipment	26,717	24,907	7 - 75
Construction work in progress	2,840	718	
Total Utility Property	122,675	114,204	
Non-utility Property	16	1,282	5
Total Property, Plant & Equipment	$122,691	$115,486	

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

(g) Treasury Stock

Treasury stock held by the Company represents shares tendered by employees as payment for existing outstanding options. Treasury stock received is recorded at its fair market value when tendered. Any such treasury stock held by the Company is not retired but instead is held until its ultimate disposition has been decided.

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

AFUDC represents a non-cash credit to income with a corresponding charge to plant in service. AFUDC amounts reflect the cost of borrowed funds and, if applicable, equity capital when used to fund major plant construction projects. During 2004 and 2003, total AFUDC credited to income was approximately $93,000 and $4,000, respectively. There were no AFUDC amounts credited to income during 2002.

(i) 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 the 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.

(j) Deferred Charges and Other Assets

Deferred charges include certain regulatory assets and costs of obtaining debt financing. Regulatory assets are amortized over periods being recovered through authorized rates. Deferred financing costs are amortized over the term of the related bonds and notes. The 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, these regulatory assets are being amortized over periods ranging from 3 to 25 years. Deferred charges and other assets consist of the following:

	2004	2003
	($000's)	
Regulatory assets:		
Source development charges	$ 587	$ 669
Miscellaneous studies	628	742
Supplemental retirement plan asset	323	253
Sarbanes-Oxley costs	152	140
Other	153	55
	1,843	1,859
Financing costs	547	501
Franchise fees and other	431	444
Filtration grant receivable	273	283
Total	$3,094	$3,087

Sarbanes-Oxley costs totaling approximately $152,000 and $140,000 represent costs incurred during 2004 and 2003, respectively, relating to the implementation and compliance with Section 404 of the Sarbanes-Oxley Act of 2002. The Company has received approval from the NHPUC related to the future recoverability of such costs.

(k) Deferred Land Costs

Included in deferred land costs is Southwood's original basis in its landholdings and any land improvements which are stated at the lower of cost or market.

(l) Notes Receivable

In January 2003, Southwood sold a tract of land to an unaffiliated regional developer for approximately $1.5 million. Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $257,000 in cash and a long-term note receivable of $1,224,000. The note, which was scheduled to have matured in October 2005, carried a floating interest rate of prime plus 1.5% and was secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.48 million, of which $257,000, representing the net cash received at closing, is included in "Revenues-Real estate operations" for 2003. The entire balance of the note was paid in 2004 resulting in the recognition of a gain for the full note receivable balance of $1,224,000 in accordance with the requirements established under Statement of Financial Accounting Standards No. 66, *"Accounting for Sales of Real Estate."*

(m) Income Taxes

Income taxes are recorded in accordance with SFAS No. 109, *"Accounting for Income Taxes"* using the accrual method and the provision for federal and state income taxes is based on income reported in the 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 credits previously realized for income tax purposes are amortized for financial statement purposes over the life of the property, giving rise to the credit.

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

Under construction contracts with real estate developers and others, the Company's regulated subsidiaries receive non-refundable advances for the costs of new main installation. The regulated subsidiaries also credit 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 and related plant asset are amortized over the life of the property.

(o) Reclassifications

Certain amounts in 2003 have been reclassified to conform with the 2004 financial statement presentation.

(p) Earnings Per Share

The Company computes earnings per share following the provisions of SFAS No. 128, *"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, 2004, 2003 and 2002, dilutive potential common shares consisted of outstanding 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 shares are as follows:

	2004	2003	2002
	(In thousands, except share and per share data)		
Basic earnings per share	$ 0.76	$ 0.52	$ 0.98
Dilutive effect of unexercised stock options	—	—	(0.01)
Diluted earnings per share	$ 0.76	$ 0.52	$ 0.97
Numerator:			
Basic net income	$ 1,820	$ 1,247	$ 2,341
Diluted net income	$ 1,820	$ 1,247	$ 2,341
Denominator:			
Basic weighted average shares outstanding	2,401,367	2,392,919	2,390,942
Dilutive effect of unexercised stock options	7,957	5,279	20,839
Diluted weighted average shares outstanding	2,409,324	2,398,198	2,411,781

(q) Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148, *"Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment to FASB Statement No. 123"* ("SFAS 148") which provides for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires prominent disclosures in both interim and annual financial statements about the method of accounting for stock-based employee compensation. At this time, the Company does not intend to change to the fair value based method of accounting for stock-based compensation. On a pro forma basis, the Company's net income and earnings per share for the years ended December 31 would have been reduced to the following amounts had compensation cost for the plan been determined consistent with SFAS No. 123, *"Accounting for Stock-Based Compensation."*

	2004	2003	2002
	(In thousands, except share and per share data)		
Net income:			
As reported	$1,820	$1,247	$2,341
Less:			
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related taxes	(242)	(181)	(145)
Pro forma net income	$1,578	$1,066	$2,196
Basic net income per share:			
As reported	$ 0.76	$ 0.52	$ 0.98
Pro forma	$ 0.66	$ 0.45	$ 0.92
Diluted net income per share:			
As reported	$ 0.76	$ 0.52	$ 0.97
Pro forma	$ 0.65	$ 0.44	$ 0.91

Note 2—Income Taxes

The components of the federal and state income tax provision at December 31 are as follows:

	2004	2003	2002
		($000's)	
Federal	$ 920	$ 728	$1,180
State	253	193	303
Amortization of investment tax credits	(33)	(33)	(33)
	$1,140	$ 888	$1,450
Currently payable/(receivable)	$ (425)	$ (769)	$ 436
Deferred	1,565	1,657	1,014
	$1,140	$ 888	$1,450

The following is a reconciliation between the statutory federal income tax rate and the effective income tax rate for 2004, 2003 and 2002:

	2004	2003	2002
Statutory federal rate	34.0%	34.0%	34.0%
State tax rate, net of federal benefit	5.6	6.0	5.3
Permanent differences	(.6)	7.0	—
Amortization of investment tax credits	(1.1)	(1.5)	(.8)
Other	.6	(3.9)	(.2)
Effective tax rate	38.5%	41.6%	38.3%

For federal income tax purposes, the Company has a net operating loss in 2004. The 2004 net operating loss will be carried back to 2002. At December 31, 2004, the Company had approximately $362,000 of alternative minimum tax credits. At December 31, 2003, the Company had approximately $93,000 of alternative minimum tax credits resulting from a net operating loss in 2003. During 2004, the Company received federal income tax refunds totaling approximately $1.1 million related to prior year net operating loss carrybacks.

The Company has a regulatory liability related to income taxes of $1,118,898 and $1,107,119 at December 31, 2004 and 2003, 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.

The temporary items that give rise to the net deferred tax liability at December 31, 2004 and 2003 are as follows:

	2004	2003
	($000's)	
Liabilities:		
Property related	$11,869	$10,977
Other	706	625
	12,575	11,602
Assets:		
Investment tax credits and other	1,119	1,107
Taxes on contributions in aid of construction	327	461
Alternative minimum tax carry-back	362	93
Deferred gain on land sale	—	485
Merger-related and other	1,332	1,204
	3,140	3,350
Valuation allowance	(300)	(300)
Net deferred tax liabilities	$ 9,735	$ 8,552

The Company has recorded a valuation allowance of approximately $300,000 relating to the tax benefit of contribution deduction carry forwards expected to be taken within the next two years (the remaining statutory carry forward period for federal tax purposes related to its charitable contribution of land in 2001). However, there is no assurance that future taxable income will be sufficient to fully realize such tax benefits given current Internal Revenue Code limitations. Furthermore, in the event that the Internal Revenue Service examines any of the years affected by this carry forward, the Company's ability to utilize such deductions could be altered as well. When the Company is able to determine that it is more likely than not that these benefits will be realized in full or in part, the related valuation allowance will be adjusted accordingly.

Note 3—Debt

Long-term debt at December 31 consists of the following:

	2004	2003
	($000's)	
Unsecured notes payable to various insurance companies:		
9.10% due April 1, 2005	$ 3,500	$ 3,500
7.40% due March 1, 2021	8,000	8,000
Unsecured Industrial Development Authority Revenue Bond 1988 series 7.50%, due July 1, 2018	910	975
Unsecured Business Finance Authority 1994 Revenue Bond (series A), 6.35% due December 1, 2019	2,345	2,480
Unsecured Business Finance Authority 1994 Revenue Bond (series B), 6.45% due December 1, 2016	1,205	1,320
Unsecured Business Finance Authority 1997 Revenue Bond, 6.30%, due May 1, 2022	4,000	4,000
Secured notes payable to bank, floating rate, due April 8, 2005	6,000	6,000
Unsecured New Hampshire State Revolving Fund		
Loan, 3.80%, due May 1, 2022	384	404
Loan, 2.315%, due April 1, 2013	121	133
Loan, 3.976%, due January 1, 2025	346	399
Secured loan, 7.99%, due October 1, 2007	6	—
Secured loan, 5.00%, due October 1, 2005	18	36
	26,835	27,247
Less current portion	9,889	368
	$16,946	$26,879

The 1994 Series A and B Bonds may be redeemed in whole or in part at the Company's option at a premium not to exceed 2% and may be redeemed at par on or after December 1, 2008. The notes and bonds payable require periodic interest payments (either monthly or semi-annually) which are based on the outstanding principal balances. The aggregate principal payment requirements subsequent to December 31, 2004 are as follows:

	Amount
	($000's)
2005	$ 9,889
2006	371
2007	771
2008	969
2009	969
2010 and thereafter	13,866
	$26,835

The note and bond agreements require, among other things, the maintenance of certain financial ratios and restrict the payment or declaration of dividends by Pennichuck. Under Pennichuck's most restrictive covenant, cumulative common dividend payments or declarations by Pennichuck subsequent to December 31, 1989 are limited to cumulative net income earned after that date plus $1,000,000. At December 31, 2004, approximately $5.9 million of Pennichuck's retained earnings were unrestricted for payment or declaration of common dividends. In addition, substantially all of the assets owned by Pennichuck East, totaling approximately \$18.0 million and \$16.6 million at December 31, 2004 and 2003, respectively, are secured as collateral under a certain \$4.5 million note with a local bank dated April 8, 1998.

The Company has available a \$6.5 million unsecured, revolving credit facility with a bank. Borrowings under the revolving credit facility bear interest at a variable rate equal to the lesser of the bank's cost of funds or the LIBOR plus 125 basis points. The revolving credit facility is subject to renewal and extension by the bank annually on June 30 of each year. At December 31, 2004 and 2003, the Company had outstanding borrowings under the revolving credit facility totaling \$3.8 million and \$2.0 million, respectively.

The Company has two interest rate financial instruments which qualify as derivatives under Statement of Financial Accounting Standards No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* ("SFAS 133"). These financial derivatives have been designated as cash flow hedges under the provisions of SFAS 133. The financial instruments are used to mitigate interest rate risks associated with the Company's \$6.0 million floating-rate loans. The floating rates, which are based on LIBOR plus 65 basis points, were 3.0% and 1.82%, at the end of 2004 and 2003, respectively. The agreements provide for the exchange of fixed rate interest payment obligations for floating rate interest payment obligations on notional amounts of principal. The two derivative agreements have a fixed rate of 6.50%. The notional amount of the debt for which interest rate exchanges have been entered into under these agreements is \$6.0 million at December 31, 2004 and 2003. The fair value of the financial derivatives, included in the Company's consolidated balance sheet as "Other liabilities," was approximately \$67,000 and \$345,000 at December 31, 2004 and 2003, respectively. Changes in the fair values of those derivatives are deferred in accumulated other comprehensive income.

Note 4—Equity Investments in Unconsolidated Companies

At December 31, 2004 and 2003, Southwood had a 50 percent ownership interest in four limited liability companies ("LLCs"). The remaining 50 percent ownership interest in each of the LLCs is held by John Stabile, principal owner of H.J. Stabile & Son, Inc. ("Property Manager"). The LLCs, whose assets and liabilities are not included in the accompanying consolidated balance sheets, own certain commercial office buildings on which there are outstanding mortgage notes totaling approximately \$9.0 million and \$9.2 million at December 31, 2004 and 2003, respectively.

Southwood uses the equity method of accounting for its investments in the four LLCs and accordingly, its investment is adjusted for its share of earnings or losses and for any distributions or dividends received from the LLCs. For the years ended December 31, 2004, 2003 and 2002, Southwood's share of earnings in the LLCs was approximately \$195,000, \$417,000, and \$314,000, respectively. Southwood's share of earnings and losses are included under revenues-real estate operations in the accompanying consolidated statements of income. For the year ended December 31, 2004, there were no cash distributions received from the LLCs. For the years ended December 31, 2003 and 2002, cash distributions received from the LLCs were approximately \$68,000 and \$175,000, respectively. The principal assets of the LLCs are the land, buildings and leasehold improvements, the total of which at December 31, 2004 and 2003 was approximately \$9.9 million and \$9.7 million, respectively.

In accordance with the terms of the LLCs' operating agreements, the Property Manager charges the LLCs a management fee to offset its real estate management costs. The management fee is calculated as a percentage of the LLCs' monthly rent. For the years ended December 31, 2004, 2003 and 2002, total management fees charged to the LLCs were approximately \$66,000, \$73,000 and \$90,000, respectively. The Property Manager also leases approximately 14,000 square feet of office and garage space in one of the LLCs for which it made annual lease payments of approximately \$202,000 in 2002, 2003 and 2004.

Note 5—Fair Value of Financial Instruments

The fair value of certain financial instruments included in the accompanying consolidated balance sheet as of December 31, 2004 is as follows:

	Carrying Value	Fair Value
	($000's)	
Long-term debt	$26,835	$29,801
Interest rate swaps	$ (67)	$ (67)

There are no quoted market prices for the Company's various long-term debt issues and thus, their fair values have been determined based on quoted market prices for securities similar in nature and in remaining maturities. 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 the Company's interest rate swaps represents the estimated cost to terminate these agreements as of December 31, 2004 based upon current interest rates.

The carrying values of the Company's cash, restricted cash, and short-term notes receivable approximate their fair values because of the short maturity dates of those financial instruments.

Note 6—Benefit Plans

Pension Plan

The Company has a non-contributory, defined benefit pension plan (the "Plan") covering substantially all full-time employees. The benefits are formula-based, giving consideration to both past and future service as well as participant compensation levels. The Company's funding policy is to contribute annually up to the maximum amount deductible for federal tax purposes. 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. The Plan uses December 31 for the measurement date to determine its projected benefit obligation and fair value of plan assets. The Plan uses January 1 as the measurement date to determine net periodic benefit costs. The changes in benefit obligation and plan assets were as follows:

	December 31, 2004	December 31, 2003
	($000's)	
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 4,762	$4,555
Service cost	251	201
Interest cost	307	270
Actuarial (gain)/loss	702	(147)
Benefits paid, excluding expenses	(154)	(117)
Benefit obligation, end of year	$ 5,868	$4,762
Change in plan assets:		
Fair value of plan assets, beginning of year	$ 3,787	$3,156
Actual return (loss) on plan assets, net	308	537
Expenses	(10)	(11)
Employer contribution	400	222
Benefits paid, excluding expenses	(154)	(117)
Fair value of plan assets, end of year	$ 4,331	$3,787
The plan's funded status was as follows:		
Funded status	$(1,538)	$ (975)
Unrecognized net actuarial loss	2,042	1,378
Unrecognized transition asset	(28)	(42)
Unrecognized prior service cost	3	3
Net amount recognized	$ 479	$ 364
Amounts recognized in the consolidated balance sheets consisted of:		
Accrued retirement liability	$ (606)	$ (78)
Accumulated other comprehensive income	1,082	439
Intangible asset	3	3
Net amount recognized	$ 479	$ 364

	2004	2003
Weighted average assumptions used to value benefit obligations were as follows:		
Discount rate at the end of the year	5.75%	6.25%
Rate of compensation increase at the end of the year	3.00%	3.00%

	2004	2003	2002
		($000's)	
Components of net periodic benefit cost were as follows:			
Service cost	$ 251	$ 201	$ 216
Interest cost	307	270	271
Expected return on plan assets	(312)	(252)	(296)
Amortization of prior service cost	1	1	1
Amortization of transition asset	(14)	(14)	(14)
Recognized net actuarial loss	52	60	30
Net periodic benefit cost	$ 285	$ 266	$ 208
Weighted average assumptions used to calculate net periodic benefit cost were as follows:			
Discount rate at the beginning of the year	6.25%	6.50%	7.50%
Expected return on plan assets for the year (net of investment expenses)	8.00%	8.00%	9.00%
Rate of compensation increase at the beginning of the year	3.00%	4.00%	5.00%

Our expected long-term rate of return on pension plan assets is based on the Plan's expected asset allocation, expected returns on various classes of Plan assets as well as historical returns.

The projected benefit obligation, the accumulated benefit obligation and the fair value of plan assets for the pension plan were $5,868,270, $4,936,704 and $4,330,699, respectively, as of December 31, 2004 and $4,761,896, $3,864,799 and $3,786,666, respectively, as of December 31, 2003. Since the market value of the Company's Plan assets was lower than the Plan's accumulated benefit obligation, the Company recorded a minimum pension liability of approximately $606,000 and $78,000 at December 31, 2004 and 2003, respectively. This resulted in an increase in the additional minimum liability for the Plan of approximately $528,000 in 2004.

In establishing its investment policy, the Company has considered the fact that the pension 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 prudently invested. Accordingly, the Company does not consider it necessary to adopt overly aggressive investment approaches that may expose the pension assets to severe depreciation in asset values during adverse markets. The investment policy should provide a high probability of generating a rate of return equal to at least 4% in excess of inflation over a long-term time horizon. The Company's investment strategy applies to its post retirement plans as well as its pension plan.

The pension plan's investment strategy utilizes several different asset classes with varying risk/return characteristics. The following indicates the asset allocation percentage of the fair value of the plan assets as of December 31 as well as the pension plan's targeted allocation range:

	2004	2003	Asset Allocation Range
Equities	47%	47%	30% – 55%
Fixed income	53%	53%	45% – 90%
Other	—	—	0% – 5%
Total	100%	100%	

On September 8, 2004, the Company contributed 15,750 shares of its common stock into the Plan. The value of this contribution, based on the closing price of the Company's common stock on that date, was approximately $400,000. While not required to make contributions to the Plan, the Company anticipates that it will contribute approximately $195,000 to the Plan in 2005.

The estimated benefit payments for the years after 2004 are as follows:

	(in thousands)
2005	$ 146
2006	140
2007	138
2008	148
2009	163
2010-2014	1,209
	$1,944

Defined Contribution Plan

In addition, the Company has a defined contribution plan covering substantially all full-time employees. Under this plan, the Company matches 100% of the first 3% of the employee's salary contributed to the plan. The matching employer's contributions, recorded as operating expenses, were approximately $121,000, $115,000 and $115,000 for 2004, 2003 and 2002, respectively.

Other Post-retirement Benefits

The Company provides post-retirement medical benefits to current and retired employees through separate post-retirement medical plans for its union and non-union employees. Future benefits, payable to current employees upon reaching normal retirement date, are calculated based on the actual percentage of wage and salary increases earned from the plan inception date to normal retirement date. The post retirement plans use December 31 for the measurement date to determine their projected benefit obligation and fair value of plan assets. These plans use January 1 as the measurement date to determine net periodic benefit cost except that the post employment plan, which was initiated during 2003, used October 1 as such measurement date during its first year of implementation. The changes in benefit obligation and plan assets were as follows:

	December 31,	
	2004	2003
	($000's)	
Change in benefit obligation:		
Benefit obligation, beginning of the year	$1,293	$ 992
Service cost	39	59
Interest cost	54	69
Actuarial loss	(338)	173
Benefits paid, excluding expenses	(28)	—
Benefit obligation, end of year	$1,020	$1,293

	December 31, 2004	December 31, 2003
	($000's)	
Change in plan assets:		
Fair value of plan assets, beginning of the year	$ 371	$ 184
Actual return (loss) on plan assets, net	20	31
Employer contribution	108	156
Benefits paid, excluding expenses	(28)	—
Fair value of plan assets, end of year	$ 471	$ 371
The plan's funded status was as follows:		
Funded status	$(549)	$(922)
Unrecognized net actuarial loss	(2)	327
Unrecognized prior service cost	38	52
Net amount recognized	$(513)	$(543)
Weighted average assumptions used to value benefit obligations were as follows:		
Discount rate at the end of the year	5.75%	6.00%
Rate of compensation increase at the end of the year	3.00%	3.00%

	2004	2003	2002
		$(000's)	
Components of net periodic benefit cost were as follows:			
Service cost	$ 39	$ 59	$ 33
Interest cost	54	69	59
Expected return on plan assets	(30)	(22)	(15)
Amortization of prior service cost	15	15	15
Amortization of transition obligation	—	—	30
Recognized net actuarial loss	—	8	—
Net periodic benefit cost	$ 78	$ 129	$ 122
Weighted average assumptions used to calculate net periodic benefit cost were as follows:			
Discount rate at the beginning of the year	6.25%	6.50%	7.50%
Expected return on plan assets for the year (net of investment expenses)	8.00%	8.00%	9.00%
Rate of compensation increase at the beginning of the year	3.00%	4.00%	5.00%
Healthcare cost trend rate at the beginning of the year	9.00%	9.00%	9.00%

A one percent change in the assumed health care cost trend rate would not have had a material effect on the post-retirement benefit cost or the accumulated post-retirement benefit obligation in 2004.

The following indicates the asset allocation percentages of the fair value of total Plan assets for each major type of post-retirement plan assets as of December 31 as well as targeted percentages and the permissible range:

	2004	2003	Asset Allocation Range
Equities	56%	54%	30% – 55%
Fixed income	40%	42%	45% – 90%
Other	4%	4%	0% – 5%
Total	100%	100%	

The assets of the Company's PBOP Plan are held in VEBA trusts.

The estimated benefit payments for the years after 2004 are as follows:

	(in thousands)
2005	$ 33
2006	32
2007	30
2008	34
2009	39
2010-2014	282
	$450

In 2003, the Company began offering post-employment medical benefits for employees who retire prior to their normal retirement age and who have met certain age and service requirements. The benefits, which are offered through a separate plan, allow continuity of coverage at group rates from the employee's retirement date until the employee becomes eligible for Medicare. The plan became effective October 1, 2003. If the employee elects to remain on the Company's group medical plan, the employee will be responsible for reimbursing the Company for the full monthly premium. Upon request, the spouse of the employee may remain on the Company's group medical plan as long as the full monthly premium is reimbursed to the Company. The post-employment plan is funded from the general assets of the Company. The changes in benefit obligation and plan assets were as follows:

	2004	2003
	($000's)	
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 351	$ 359
Service cost	51	5
Interest cost	34	5
Actuarial gain	241	(18)
Benefits paid, excluding expenses	—	—
Benefit obligation, end of year	$ 677	$ 351
The plan's funded status was as follows:		
Funded status	$(677)	$(351)
Unrecognized net actuarial gain	216	(18)
Unrecognized prior service cost	331	353
Net amount recognized	$(130)	$ (16)

	2004	2003
Weighted average assumptions used to value benefit obligations were as follows:		
Discount rate at the end of the year	5.75%	6.00%
Health care cost trend rate at the end of the year	9.00%	9.00%

	2004	2003
	$(000's)	
Components of net periodic benefit cost were as follows:		
Service cost	$ 51	$ 5
Interest cost	34	5
Amortization of prior service cost	22	6
Recognized net actuarial loss	6	—
Net periodic benefit cost	$113	$16
Weighted average assumptions used to calculate net periodic benefit cost were as follows:		
Discount rate at the beginning of the year	6.25%	6.00%
Health care cost trend rate at the beginning of the year	9.00%	9.00%

The estimated benefit payments for the years after 2004 are as follows:

	(in thousands)
2005	$ 9
2006	24
2007	31
2008	28
2009	31
2010-2014	259
	$382

In December 2003, the FASB issued Staff Position (FSP) 106-1, "Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the "Act"). The Act provides for prescription drug benefits for retirees over the age of 65 under a new Medicare Part D program. For employers like the Company, who currently provide retiree medical programs for former employees over the age of 65, there are potential subsidies available which are inherent in the Act. The Act potentially entitles these employers to a direct tax-exempt federal subsidy.

In May 2004, the FASB issued FSP 106-2. This FSP provides guidance on the accounting for the effects of the Act. The guidance indicates that, when an employer initially accounts for the subsidy, the effect on the accumulated postretirement benefit obligation should be accounted for as an actuarial gain (assuming no plan amendments are made). In addition, since the subsidy would affect the employer's share of its plan's costs, the subsidy is included in measuring the costs of benefits attributable to current service. Therefore, the subsidy should reduce service cost when it is recognized as a component of net periodic postretirement benefit cost. This FSP became effective on July 1, 2004. The Company has concluded, in consultation with its actuarial service provider, that the adoption of this FSP did not have a material effect on the Company's combined financial statements.

Note 7—Stock Based Compensation Plans

The Company provides its officers and key employees incentive and non-qualified options on a discretionary basis pursuant to two stock option plans, the 1995 Stock Option Plan ("1995 Plan") and the 2000 Stock Option Plan ("2000 Plan").

The 1995 Plan, as amended, 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. The number of shares of common stock subject to issuance under the 1995 Plan is 75,000. At December 31, 2004, no further shares were available for future grant under the 1995 Plan.

The 2000 Plan, as amended, provides for 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 generally become exercisable immediately following the grant and expire ten years from the date of grant. The number of shares of common stock subject to issuance under the 2000 Plan is 150,000. At December 31, 2004, 116,601 shares were available for future grant under the 2000 Plan.

In accordance with SFAS No. 123, the Company accounts for stock-based compensation for employees under APB Opinion No. 25, *"Accounting for Stock Issued to Employees,"* using the intrinsic value method and has elected the disclosure-only alternative under SFAS No. 123.

The following table summarizes the activity under the stock option plans for the three-year period ended December 31, 2004:

	Number of Shares	Price per Share	Weighted Average Price per Share
Options outstanding at December 31, 2001	69,803	$8.12-$23.25	$20.15
Granted	18,175	27.00	27.00
Exercised	(2,583)	8.12-15.75	11.33
Canceled	—	—	—
Options outstanding at December 31, 2002	85,395	8.12-27.00	21.88
Granted	50,000	24.10-26.85	25.20
Exercised	(11,701)	8.12-23.25	17.49
Canceled	(13,856)	20.39-27.00	24.47
Options outstanding at December 31, 2003	109,838	8.12-27.00	23.53
Granted	24,900	28.32	28.32
Exercised	(200)	21.00	21.00
Canceled	—	—	—
Options outstanding at December 31, 2004	134,538	$8.12-$28.32	$24.43
Exercisable at December 31, 2004	124,538	$8.12-$28.32	$24.46
Exercisable at December 31, 2003	89,838	$8.12-$27.00	$23.40
Exercisable at December 31, 2002	85,395	$8.12-$27.00	$21.88

The following table summarizes information about options outstanding and exercisable at December 31, 2004:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Shares Outstanding	Remaining Contractual Life (in years)	Weighted Average Exercise Price per Share	Number of Shares Outstanding	Weighted Average Exercise Price per Share
$ 8.12	501	2.00	$ 8.12	501	$ 8.12
$ 8.63	251	1.00	$ 8.63	251	$ 8.63
$ 9.50	501	3.00	$ 9.50	501	$ 9.50
$15.75	5,231	4.00	$15.75	5,231	$15.75
$20.39	20,069	6.00	$20.39	20,069	$20.39
$23.25	19,835	5.00	$23.25	19,835	$23.25
$24.10	30,000	8.58	$24.10	20,000	$24.10
$26.85	20,000	8.75	$26.85	20,000	$26.85
$27.00	13,250	7.00	$27.00	13,250	$27.00
$28.32	24,900	9.00	$28.32	24,900	$28.32
	134,538			124,538	

The weighted average fair value per share of options granted during 2004, 2003 and 2002 was $8.24, $6.59 and $7.99, respectively. The fair value of each option grant is estimated on the date of grant using the following assumptions:

	Year Ended December 31,		
	2004	2003	2002
Risk-free interest rate	3.12%	3.30%	4.60%
Expected dividend yield	3.04%	3.42%	2.90%
Expected lives	5 years	5 years	5 years
Expected volatility	39.00%	36.00%	36.00%

Note 8—Shareholder Rights Plan

On April 20, 2000, the Company's Board of Directors adopted a Rights Agreement and declared a dividend of one preferred share purchase right ("Right") for each outstanding share of common stock, $1.00 par value. Each Right entitles the shareholder to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock of the Company at an exercise price of $85.00 per share, subject to adjustment. The Rights become exercisable in the event that a person or group acquires, or commences a tender or exchange offer to acquire, more than 10% of the Company's outstanding common stock. In that event, each Right will entitle the holder, other than the acquiring party, to purchase a number of common shares of the Company having a market value equal to two times the Right's exercise price. If the Company is acquired in a merger or other business combination at any time after the Rights become exercisable, the Rights will entitle the holder to purchase a certain number of shares of common stock of the acquiring company having a market value equal to two times the Right's exercise price. The Rights are redeemable by the Company at a redemption price of $.01 per Right at any time before the Rights become exercisable. The Rights will expire on April 19, 2010, unless previously redeemed.

Note 9—Commitments and Contingencies

Termination of Merger Agreement

On April 29, 2002, the Company entered into a definitive agreement with Philadelphia Suburban Corporation ("PSC") to merge into a wholly owned subsidiary of PSC with shareholders of the Company receiving shares of PSC in the merger. PSC subsequently changed its name to Aqua America, Inc. The merger was subject to several conditions, including approval by the shareholders of the Company and approval by the New Hampshire Public Utilities Commission ("NHPUC"). The review of the merger by the NHPUC and approval by the Company's shareholders was expected to occur in the first half of 2003.

However, on November 26, 2002, the Board of Aldermen of the City of Nashua, New Hampshire (the "City") adopted a resolution calling for a referendum to authorize the City to pursue the acquisition, by an eminent domain proceeding or otherwise, of all or a portion of Pennichuck's water system serving the residents of the City and others. The City's voters passed the referendum on January 14, 2003. On February 4, 2003, the Company announced that it had reached an agreement with PSC to terminate PSC's pending acquisition of the Company. The decision to terminate the merger agreement resulted from the City's ongoing efforts to acquire Pennichuck's utility plant and property by eminent domain. Expenses associated with the PSC merger transaction and related issues totaled approximately $231,000 and $1,946,000 for the years ended December 31, 2003 and 2002, respectively. There were no expenses associated with the merger transaction during 2004. The 2003 and 2002 expenses consisted of the following:

	2003	2002
	($000's)	
Investment banking fees	$—	$1,086
Legal and other fees relating to merger and regulatory approval	231	860
Total merger and related costs	$231	$1,946

Under current Internal Revenue Code regulations, costs relating specifically to the merger transaction may be deductible for federal income tax purposes in the year in which the merger is terminated. As a result, the Company realized approximately $1.5 million of merger-related direct costs for federal income tax purposes in 2003.

Pending Municipalization Efforts

On March 25, 2004, the City filed a petition with the NHPUC under the New Hampshire utility municipalization statute, NHRSA Ch. 38, seeking to take by eminent domain all of the utility assets of the Company's three utility subsidiaries. Under NHRSA Ch. 38, if the NHPUC makes a finding that it is in the public interest to do so, a municipality may take the assets of a utility providing service in that municipality. The NHPUC is also charged with determining the amount of compensation for the assets that it finds it is in the public interest for the municipality to take. On January 21, 2005, the NHPUC issued an order ruling, among other things, that (1) the City does not have the legal authority to pursue a taking of the assets of the two Pennichuck utility subsidiaries that provide no service in Nashua, Pennichuck East Utility, Inc. or Pittsfield Aqueduct Company, Inc. and (2) the City does have the legal authority to pursue a potential taking of all of the assets of Pennichuck Water Works, Inc., subject to a determination by the NHPUC as to what portion of those assets, if any, it is in the public interest for Nashua to take.

Pursuant to an order issued by the NHPUC on October 1, 2004, the City filed written testimony on November 22, 2004 supporting its position that the proposed taking is in the public interest. The Commission has indicated that it will set a procedural schedule for the remainder of the case after the parties have submitted written statements of their positions regarding the sequencing of events in the case and have met to discuss procedural issues.

If the City is successful in obtaining a determination by the NHPUC that it should be allowed to take some or all of Pennichuck's assets, the City is not required under NHRSA Ch. 38 to complete the taking and could ultimately choose not to proceed with the purchase of the assets. The Company cannot predict the ultimate outcome of these matters. It is possible that, if the acquisition efforts of the City are successful, the financial position of the Company would be materially impacted.

Prior to the City's filing of its eminent domain case at the NHPUC, the Company filed a Petition for Declaratory Judgment in New Hampshire Superior Court seeking a determination that the City had waited too long to seek condemnation authority from the NHPUC after obtaining a public vote on November 26, 2002 regarding municipalization of water utility assets as well as a determination that NHRSA Ch. 38 was unconstitutional on a number of grounds and, later, that the NHPUC proceeding ultimately filed by the City exceeded the scope of the assets that were properly the subject of an attempted taking by the City under NHRSA Ch. 38. On September 1, 2004, the Superior Court ruled adversely to the Company on a number of these issues, deferred to the NHPUC with regard to the issue relating to the scope of the assets that the City could seek to acquire, and determined that one of the constitutional claims raised by the Company should be addressed only after the proceeding at the NHPUC had concluded. On October 22, 2004, the Company filed an appeal with the New Hampshire Supreme Court on a number of its claims. Briefs have been filed with the court, and the parties are awaiting the scheduling of oral arguments.

In addition to its efforts to obtain declaratory relief, the Company also brought suit against the City in New Hampshire Superior Court to obtain monetary damages that the Company believes resulted from the City's efforts to acquire some or all of the assets of the Company. The City removed the case to United States District Court for the District of New Hampshire and then sought to have the case dismissed in its entirety. On September 13, the District Court dismissed the Company's federal law claims without prejudice on the basis that the Company had not yet exhausted its available state law remedies and remanded the case to New Hampshire Superior Court for consideration of the Company's state law claims. On December 1, 2004, the Superior Court dismissed the remainder of the case without prejudice on the basis that the claim for damages was premature and giving the Company the right to refile the case at a later date depending on the outcome of the proceeding before the NHPUC.

The Town of Pittsfield voted at its town meeting in 2003 to acquire the assets of the Company's Pittsfield subsidiary by eminent domain. In April 2003, the Town notified the Company in writing of the Town's desire to acquire the assets. The 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, the Company received a letter from the Town reiterating the Town's desire to acquire the assets of the Company's Pittsfield subsidiary. The Company does not have a basis to evaluate whether the Town will actively pursue the acquisition of the Company's Pittsfield assets by eminent domain.

The Company cannot predict the ultimate outcome of these matters. It is possible that, if the acquisition efforts of the City and/or the Town of Pittsfield are successful, the financial position of the Company would be materially impacted. No adjustments have been recorded in the accompanying condensed consolidated financial statements for these uncertainties.

Settlement of Regulatory Investigation

The Company and Maurice L. Arel, the Company's former President and Chief Executive Officer, were the subject of parallel investigations by the New Hampshire Bureau of Securities Regulation (the "Bureau") and the

U.S. Securities and Exchange Commission (the "SEC") that began in late 2002 and early 2003, respectively. Effective December 16, 2004, the Bureau and the SEC entered into settlements with the Company and Mr. Arel regarding matters related to those investigations.

The settlement with the Company was effected through (1) a Consent Order issued by the Bureau (the "New Hampshire Order") and (2) an SEC Order Instituting Cease-and-Desist Proceedings, Making Findings, and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934 (the "SEC Order"). The allegations in the Orders relate primarily to the Company's public disclosures regarding various transactions involving joint ventures formed by the Company's Southwood subsidiary (the "Southwood Joint Ventures"). The Southwood Joint Ventures were organized to commercialize land that had long had been held by the Company's principal water utility subsidiary. The Bureau and the SEC simultaneously entered into separate settlement agreements with Mr. Arel. The Company and Mr. Arel neither admitted nor denied any of the factual or legal allegations contained in their respective settlement documents. The New Hampshire Order directs the Company to refrain from any violation of the relevant provisions of New Hampshire law, and the SEC Order directs the Company to cease and desist from committing or causing any future violation of the relevant federal securities laws.

The Company and Mr. Arel were jointly and severally required to pay to the State of New Hampshire an administrative fine of $50,000, and investigation costs of $60,000. Mr. Arel made both payments under the terms of a settlement between him and the Company. As of March 1, 2005, shareholders of the Company as of March 31, 2003 received a payment totaling $280,000 under the terms of the New Hampshire Order. The Company and Mr. Arel have agreed that Mr. Arel shall be financially responsible for $160,000 of that amount and the Company shall be responsible for $120,000. In accordance with the terms of the New Hampshire Order, neither Mr. Arel nor any director of the Company who was a shareholder as of March 31, 2003 received a portion of the shareholder payment.

In connection with the settlement of the Bureau and SEC investigations, Pennichuck and Mr. Arel entered into a separate settlement regarding Mr. Arel's claim under a 1994 Insurance Funded Deferred Compensation Agreement with Pennichuck (the "Deferred Compensation Agreement"). The Deferred Compensation Agreement was designed to provide Mr. Arel with supplemental retirement benefits such that, in general, upon retirement he would receive a monthly payment which, together with funds available under the Pennichuck's defined benefit pension plan annuity, the annuity value of Pennichuck's contributions to Mr. Arel's 401(k) plan and fifty percent (50%) of his projected social security benefits, would equal at least sixty percent (60%) of the average of Mr. Arel's last three years' annual base salary compensation. As of May 2003, Pennichuck's annual obligation under the Deferred Compensation Agreement was approximately $57,200. The supplemental retirement payments would continue for Mr. Arel's lifetime, and for up to 10 years thereafter to his designated beneficiary. The amount of the supplemental retirement benefit is adjusted annually based upon the change in the Consumers Price Index. Under the Deferred Compensation Agreement, Pennichuck purchased and agreed to maintain during Mr. Arel's lifetime a Pennichuck-owned cash value life insurance policy.

Pending a resolution of the Bureau and SEC investigations, Pennichuck withheld the payments under the Deferred Compensation Agreement that would otherwise have begun as of May 1, 2003. In connection with the settlement of any claim that Pennichuck or Mr. Arel may have had against the other arising out of any allegation in the settlement documents with the Bureau and the SEC or the cessation of Mr. Arel's employment in May 2003, Pennichuck and Mr. Arel have agreed that his $160,000 contribution toward the payment to Pennichuck shareholders required by the New Hampshire Order will be deducted from the amount that Pennichuck owes to Mr. Arel under the Deferred Compensation Agreement. Pennichuck has agreed that after the deduction of such amount, Pennichuck will make the monthly supplemental retirement payments under the Deferred Compensation Agreement.

Operating Leases

The Company leases its corporate office space as well as certain office equipment under operating lease agreements expiring through April 2009. Total rent expense was approximately $148,000, $40,000 and $24,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

The Company's remaining lease commitments for all leased equipment as of December 31, 2004 are as follows:

	Amount ($000's)
2005	$212
2006	200
2007	195
2008	163
2009 and after	53
	$823

Note 10—Guarantees

As discussed in Note 4, Southwood holds a 50% interest in four limited liability companies known as HECOP I, HECOP II, HECOP III and HECOP IV, each of which owns land and three of which own a commercial office building, subject to a mortgage note with a local bank. The mortgage notes, totaling approximately $9.0 million, which are not included in the accompanying condensed consolidated balance sheets, are each secured by the underlying real property. In addition, Southwood is contingently liable on one-half of the outstanding balance, and as such, it has issued a guarantee to the mortgagee for its share of the guaranteed indebtedness. At December 31, 2004, Southwood was contingently liable on approximately $4.5 million of mortgage indebtedness associated with the limited liability companies.

Note 11—Supplemental Disclosures on Cash Flow and Non-Cash Items

Supplemental cash flow information for the three years ended December 31 is presented below:

	2004	2003	2002
		($000's)	
Cash paid during the year for:			
Interest	$1,947	$1,875	$1,931
Income taxes	$ 69	$ 132	$ 645
Non-cash items:			
Deferred gain on land sale	$ —	$1,224	$ —
Contributions in aid of construction	$2,644	$1,811	$3,168
Minimum pension liability adjustment:			
Accrued pension liability	$ 606	$ 78	$ 615
Deferred tax and other	$ (272)	$ 222	$ 405
Other comprehensive income (loss)	$ (217)	$ 454	$ (619)

Note 12—Business Segment Information

The Company follows the provisions of SFAS No. 131, "*Disclosures about Segments of an Enterprise and Related Information*." SFAS No. 131 establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. The Company's operating activities are grouped into three primary business segments as follows:

Water utility—Involved in the collection, treatment and distribution of potable water for domestic, industrial, commercial and fire protection service in the City of Nashua and certain surrounding communities in southern and central New Hampshire.

Real estate—Involved in the ownership, development, management and sale of industrial and residential property in Nashua and Merrimack, New Hampshire.

Contract operations and other—Includes the contract operations and laboratory testing activities of the Service Corporation and sundry activities of the Company.

The following table presents information about the Company's three primary business segments:

	2004	2003	2002
		($000's)	
Operating revenues:			
Water utility	$ 19,601	$18,680	$18,830
Real estate	1,437	949	3,088
Contract operations & other	1,987	1,759	1,504
Total operating revenues	$ 23,025	$21,388	$23,422
Operating income:			
Water utility	$ 4,471	$ 4,113	$ 6,045
Real estate	1,156	846	1,338
Contract operations & other	617	236	265
Total operating income	$ 6,244	$ 5,195	$ 7,648
Capital additions:			
Water utility	$ 7,459	$ 8,968	$ 8,413
Real estate	—	—	—
Contract operations & other	—	24	30
Total capital additions	$ 7,459	$ 8,992	$ 8,443
Total assets:			
Water utility	$ 97,733	$92,031	$85,714
Real estate	1,776	2,651	1,787
Contract operations & other	2,618	2,528	3,481
Total assets	$102,127	$97,210	$90,982

	2004	2003	2002
		($000's)	
Depreciation and amortization expense:			
Water utility	$ 3,103	$ 2,884	$ 2,681
Real estate	—	—	—
Contract operations & other	14	30	95
Total depreciation and amortization expense	$ 3,117	$ 2,914	$ 2,776

The operating revenues within each business segment are sales to unaffiliated customers. Operating income is defined as segment revenues less operating expenses including allocable parent company expenses attributable to each business segment as shown below.

	2004	2003	2002
		($000's)	
Allocated parent expenses:			
Water utility	$832	$709	$444
Real estate	37	14	49
Contract operations & other	40	60	33
Total allocated parent expenses	$909	$783	$526

The general and administrative expenses allocated by the parent company to its subsidiaries are calculated based primarily on a ratio of subsidiary revenues to consolidated revenues.

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

Within the water utility business segment, one customer accounted for approximately 10 percent of water utility revenues in 2003 and 2002. That same customer accounted for approximately 9 percent of water utility revenues in 2004. During 2004, 2003 and 2002, the water utility recorded approximately $1,939,000 $1,847,000 and $1,842,000, respectively, in water revenues which were derived from fire protection and other billings to the City of Nashua. As of December 31, 2004 and 2003, this customer accounted for approximately 10% and 11%, respectively, of total accounts receivable.

Note 13—Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
Year Ended December 31, 2004				
Revenues	$4,798	$5,412	$6,241	$6,574
Operating Income	742	1,284	1,696	2,522
Net income	(21)	215	577	1,049
Earnings (loss) per common share				
Basic	$(0.01)	$ 0.09	$ 0.24	$ 0.43
Diluted	$(0.01)	$ 0.09	$ 0.24	$ 0.43
Year Ended December 31, 2003				
Revenues	$4,861	$5,262	$6,394	$4,871
Operating Income	964	1,375	2,209	647
Net income	147	393	1,022	(315)
Earnings (loss) per common share				
Basic	$ 0.06	$ 0.16	$ 0.43	$(0.13)
Diluted	$ 0.06	$ 0.16	$ 0.43	$(0.13)

Note 14—Subsequent Events

Debt Refinancings

In January 2005, Pennichuck and Pennichuck East issued an aggregate $6.6 million of long-term, tax-exempt debt through the Business Finance Authority of the State of New Hampshire. These financings consisted of four separate water facility revenue bonds (Series A through D) with interest rates ranging from 4.5% to 4.7% and maturities ranging from 2025 to 2035. Approximately $3.0 million of this debt represented new funds with the balance representing a refinancing of higher interest debt.

In March 2005, the Company issued $5.0 million of debt to an insurance company pursuant to a private placement transaction. This loan includes interest at 5.0% and a maturity date of March 4, 2010. $1.5 million of this debt represents new funds with the balance representing a refinancing of higher interest debt.

On March 22, 2005, the Company restructured and expanded its debt arrangements with Bank of America (BOA). In so doing, the Company increased its revolving credit facility to $16.0 million from $6.5 million. The BOA facility permits the Company to borrow, repay and re-borrow, in varying amounts and from time to time at its discretion through December 31, 2007, subject to the terms and conditions of the facility. Borrowings under the new credit facility bear interest rates ranging from LIBOR plus 1.0% to LIBOR plus 1.5% based on the results of the Company's fixed charge coverage ratio. The credit facility will be used for working capital, capital expenditures and general corporate purposes including the refinancing of the following existing loans:

- $1.5 million loan maturing on April 8, 2005; and

- Approximately $2.8 million outstanding on the Company's new $16.0 million line of credit as of March 31, 2005.

Settlement of Pennichuck Rate Increase

In March 2005, the Company reached settlement with the NHPUC staff on its requested rate increase for Pennichuck that was filed in May 2004. A hearing on the settlement is scheduled for April 5, and the Company expects that the NHPUC will issue a final written decision shortly thereafter. In September 2004 the NHPUC authorized an interim annualized increase of $1.3 million effective retroactive for services rendered on and after June 1, 2004. The settlement agreement, if approved by the NHPUC, will result in a final annualized rate increase of approximately $1.7 million, also effective as of June 1, 2004.

Pending Acquisition

In January 2005, we entered into an agreement to acquire three water systems with approximately 1,100 customers in the Lakes Region and central part of New Hampshire: the Locke Lake water system in Barnstead, the Birch Hill water system in Conway, and the Sunrise Estates water system in Middleton, New Hampshire. The acquisition is subject to completion of our due diligence and the approval of the NHPUC. We expect the acquisition to close late 2005.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

We carried out an evaluation required by Rule 13a-15(b) of the Securities Exchange Act of 1934 under the supervision and with the participation of our management, including the principal executive officer and the principal financial officer, of the effectiveness of the design and operation of our "disclosure controls and procedures" as of the end of the period covered by this report.

Disclosure controls and procedures are designed with the objective of ensuring that (i) information required to be disclosed in the company's reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) information is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Based on their evaluation, the principal executive officer and the principal financial officer have concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective to provide reasonable assurance that information relating to the company (including our consolidated subsidiaries) required to be included in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms.

There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding our directors and executive officers appears under "Election of Directors" and "Corporate Governance, Board and Committee Membership" in our Proxy Statement for the Annual Meeting of Shareholders (the "Proxy Statement"), to be held May 5, 2005. Those portions of the Proxy Statement are incorporated by reference into this report.

Compliance with Section 16(a) of the Exchange Act

Information about compliance with Section 16(a) of the Exchange Act appears under "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement. That portion of the Proxy Statement is incorporated by reference into this report.

Code of Ethics

Information regarding our code of ethics (the Company's Code of Ethics for Financial Professionals) appears under "Executive Compensation—Code of Ethics for Financial Professionals" in the Proxy Statement. That portion of the Proxy Statement is incorporated by reference into this report. We will post amendments to or waivers from a provision of the Code of Ethics for Financial Professionals on our website at www.pennichuck.com.

Item 11. EXECUTIVE COMPENSATION EXECUTIVE COMPENSATION

Information about compensation of our named executive officers and related matters appears under "Executive Compensation," "Report of the Compensation and Benefits Committee" and under "Comparative Stock Performance" in the Proxy Statement. Those portions of the Proxy Statement are incorporated by reference into this report.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information about security ownership of certain beneficial owners and management appears under "General Disclosures – Security Ownership of Certain Beneficial Owners" and "General Disclosures – Security Ownership of Management" in the Proxy Statement. Those portions of the Proxy Statement are incorporated by reference into this report. Information regarding securities authorized for issuance under equity compensation plans appears under "Executive Compensation—Equity Compensation Plans" in the Proxy Statement. That portion of the Proxy Statement is incorporated by reference into this report.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information about certain relationships and related transactions appears under "Executive Compensation—Certain Relationships and Related Transactions" in the Proxy Statement. That portion of the Proxy Statement is incorporated by reference into this report.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information about principal accountant fees and services appears under "Relationship with Independent Accountants—Fees Paid to PricewaterhouseCoopers LLP" in the Proxy Statement. That portion of the Proxy Statement is incorporated by reference into this report.

PART IV:

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) The following Consolidated Financial Statements of Pennichuck Corporation and subsidiaries for the year ended December 31, 2004 are included in Part II, Item 8 hereof:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2004 and 2003

Consolidated Statements of Income for each of the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Stockholders' Equity for each of the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Cash Flows for each of the years ended December 31, 2004, 2003 and 2002

Notes to Consolidated Financial Statements

(2) The following Financial Statement Schedules of Pennichuck Corporation for each of the years 2004, 2003 and 2002 are included in this report:

I–Condensed Financial Information of Registrant
II–Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

(3) Exhibit Index:

The following is a list of exhibits which are either filed or incorporated by reference as part of this annual report on Form 10-K.

Exhibit Number	Description of Exhibit
3.1	Restated Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.1 to the Company's 1990 Form 10-K Report and incorporated herein by reference).
3.2	Articles of Amendment to the Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.2 to the Company's 1994 Form 10-KSB Report and incorporated herein by reference).
3.3	Bylaws of Pennichuck Corporation (Filed as Exhibit 3.3 to the Company's 2002 Form 10-K Report and incorporated herein by reference).
3.4	Articles of Amendment to the Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.4 to the Company's 1999 second quarter Form 10-QSB Report and incorporated herein by reference).
3.5	Articles of Amendment to the Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.5 to the Company's 2000 second quarter Form 10-QSB Report and incorporated herein by reference).
3.6	Certificate of Designation of Series A Junior Participating Preferred Stock of Pennichuck Corporation (Filed as Exhibit 3.6 to the Company's 2000 second quarter Form 10-QSB Report and incorporated herein by reference).
4.1	Rights Agreement dated as of April 20, 2000 between Pennichuck Corporation and Fleet National Bank, as Rights Agent (Exhibit 3.2 to the Company's Registration Statement on Form 8-A12G, filed on April 21, 2000 and incorporated herein by reference).
4.2	Amendment to Rights Agreement dated October 10, 2001, by and between Pennichuck Corporation and Fleet National Bank (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on April 30, 2002).
4.3	Second Amendment to Rights Agreement dated January 14, 2002, by and between Pennichuck Corporation and EquiServe Trust Company, N.A. (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on April 30, 2002).
4.4	Agreement of Substitution and Amendment of Common Shares Rights Agreement dated January 15, 2002, by and between Pennichuck Corporation and American Stock Transfer & Trust Company (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on April 30, 2002).
4.5	Amendment to Rights Agreement dated April 29, 2002, by and between Pennichuck Corporation and American Stock Transfer & Trust Company (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 29, 2002).
4.6	Dividend Reinvestment and Common Stock Purchase Plan, as amended (Filed as Exhibit 4.6 to Post-effective Amendment No. 3 to Registration Statement on Form S-3 filed on November 3, 2004, and incorporated herein by reference).
10.1	Deferred Compensation Program for Directors of Pennichuck Corporation (Filed as Exhibit 10.2 to the Company's 1997 Form 10-KSB Report and incorporated herein by reference).*

Exhibit Number	Description of Exhibit
10.2	Loan Agreement dated March 22, 2005 between Pennichuck Corporation and Fleet National Bank, a Bank of America Company. (Filed as Exhibit 10.1 to the Company's Form 8-K filed on March 28, 2005 and incorporated herein by reference).
10.3	Revolving Credit Promissory Note of Pennichuck Corporation to Fleet National Bank, a Bank of America Company, dated March 22, 2005 (Filed as Exhibit 10.2 to the Company's Form 8-K filed on March 28, 2005 and incorporated herein by reference).
10.4	Guaranty Agreement by Pennichuck Water Works, Inc. and Fleet National Bank, a Bank of America Company, dated March 22, 2005 (Filed as Exhibit 10.3 to the Company's Form 8-K filed on March 28, 2005 and incorporated herein by reference).
10.5	Subordination Agreement by Pennichuck Water Works, Inc. and Fleet National Bank, a Bank of America Company, and joined by Pennichuck Corporation, dated March 22, 2005 (Filed as Exhibit 10.4 to the Company's Form 8-K filed on March 28, 2005 and incorporated herein by reference).
10.6	Insurance Funded Deferred Compensation Agreement dated June 13, 1994 (Filed as Exhibit 10.9 to the Company's 1994 second quarter Form 10-QSB Report and incorporated herein by reference).*
10.7	1995 Stock Option Plan (Filed as Exhibit 4.1 to the Company's Post-Effective Amendment No. 1 to Registration Statement on Form S-8, filed September 17, 2001, No. 333-57352, and incorporated herein by reference).*
10.8	Loan Agreement dated April 8, 1998, between Pennichuck Corporation, Pennichuck East Utility, Inc. and Fleet Bank-NH (Filed as Exhibit 10.11 to the Company's 1998 second quarter Form 10-QSB report and incorporated herein by reference).
10.9	Form of Change of Control Agreement by and between Pennichuck Corporation and executive officers (Stephen J. Densberger, Bonalyn J. Hartley and Donald L. Ware) each dated January 8, 1999 (Filed as Exhibit 10.14 to the Company's 1999 first quarter Form 10-QSB Report and incorporated herein by reference).*
10.10	2000 Stock Option Plan (Exhibit 4.1 to the Company's Post-Effective Amendment No. 1 to Registration Statement on Form S-8, No. 333-57354, filed on September 17, 2001, and incorporated herein by reference).*
10.11	Employment Agreement between Donald L. Correll and Pennichuck Corporation dated August 4, 2003 (Filed as Exhibit 10.14 to the Company's 2003 third quarter Form 10-Q report and incorporated herein by reference).*
10.12	Amendment Agreement dated March 29, 2004 to Loan Agreement dated April 8, 1998, as amended, between Pennichuck Corporation and Pennichuck East Utility, Inc., as borrowers, The Southwood Corporation and Pennichuck Water Service Corporation as guarantors, and Fleet National Bank (Filed as Exhibit 10.18 to the Company's 2004 first quarter Form 10-Q and incorporated herein by reference).
10.13	Indenture of Lease dated as of April 23, 2004 by and between Pennichuck Water Works, Inc., as lessee and HECOP III, LLC, as lessor (Filed as Exhibit 10.19 to the Company's second quarter Form 10-Q and incorporated herein by reference).
10.14	Employment Agreement between William D. Patterson and Pennichuck Corporation dated January 31, 2005.*†
10.15	Guaranty Agreement between Pennichuck Corporation and Banknorth National Association.†

Exhibit Number	Description of Exhibit
10.16	Summary of Non-Employee Director Compensation.*†
10.17	Summary of Annual Incentive Bonus Plan.*†
10.18	Form of Stock Option granted under the 1995 Stock Option Plan.*†
10.19	Form of Stock Option granted under the 2000 Stock Option Plan.*†
14	Code of Ethics for Financial Professionals (Filed as Exhibit 14 to the Company's 2003 Form 10-K report and incorporated herein by reference).
21	Subsidiaries of Pennichuck Corporation (Filed as Exhibit 21 to the Company's 1997 Form 10-KSB Report and incorporated herein by reference).
23	Consent of PricewaterhouseCoopers LLP.†
31.1	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.†
31.2	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.†
32.1	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.†
32.2	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.†

* Management contract or compensatory plan or arrangement.

† Filed herewith.

SCHEDULE I—CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Pennichuck Corporation
Condensed Balance Sheets

	December 31, 2004	December 31, 2003
	($000's)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 717	$ 377
Refundable income taxes	309	1,145
Prepaid expenses and other	77	3
Total Current Assets	1,103	1,525
Property and Equipment	—	1,266
Less allowances for depreciation	—	(610)
	—	656
Other assets	8	8
Deferred tax asset	—	—
Investment in subsidiaries	35,869	33,232
	$36,980	$35,421
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and other current liabilities	$ 517	$ 397
Line of credit	3,800	2,000
Current portion of long term debt	1,500	—
Long term debt	—	1,500
Other long term liabilities	332	774
Stockholders' equity	30,831	30,750
	$36,980	$35,421

SCHEDULE I—CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CON'T)

Pennichuck Corporation
Condensed Statements of Income

	Years Ended December 31, 2004	2003	2002
		($000's)	
Operating revenues	$ 55	$ 57	$ 45
Operating expenses, including merger related costs	1,392	1,116	1,927
Operating Income (Loss)	(1,337)	(1,059)	(1,882)
Interest income & other	3	12	56
Interest (Expense)	(52)	4	(138)
Income (Loss) Before Income Taxes and Equity in Earnings of Subsidiaries	(1,386)	(1,043)	(1,964)
Income Tax (Provision)	549	354	798
Income (Loss) Before Equity in Earnings of Subsidiaries	(837)	(689)	(1,166)
Equity in Earnings of Subsidiaries	2,657	1,936	3,507
NET INCOME	$ 1,820	$ 1,247	$ 2,341

Condensed Statements of Cash Flows

	Year Ended December 31, 2004	2003	2002
		($000's)	
OPERATING ACTIVITIES	$ 24	$ (109)	$(1,544)
INVESTING ACTIVITIES:			
Equity Transfer to Subsidiary	2,064	2,010	1,897
Net increase in Property and Equipment and Other Assets	647	(24)	(18)
	2,711	1,986	1,879
FINANCING ACTIVITIES:			
Proceeds from issuance of debt	1,800	2,000	—
Advances (to) from Subsidiaries	(2,171)	(3,858)	615
Payment of Dividends	(2,064)	(2,010)	(1,944)
Proceeds from Dividend Reinvestment and Other, net	41	47	61
	(2,394)	(3,821)	(1,268)
INCREASE (DECREASE) IN CASH	341	(1,944)	(933)
Cash at Beginning of Year	377	2,321	3,255
CASH AT END OF YEAR	$ 717	$ 377	$ 2,322

SCHEDULE I—CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CON'T)

Pennichuck Corporation
Notes to Condensed Financial Statements

NOTE A—ACCOUNTING POLICIES

Basis of Presentation. In the parent-company-only financial statements, the Company's investment in its subsidiaries is stated at cost plus equity in undistributed earnings of its subsidiaries. Parent-company-only financial statements should be read in conjunction with the Company's Annual Report to Shareholders for the year ended December 31, 2004.

NOTE B—COMMON DIVIDENDS FROM SUBSIDIARIES

Common stock cash dividends paid to Pennichuck Corporation by its subsidiaries were as follows:

	2004	2003	2002
		($000's)	
Pennichuck Water Works, Inc.	$ —	$ 933	$1,829
Pittsfield Aqueduct Company, Inc.	—	—	—
Pennichuck East Utility, Inc.	—	48	115
The Southwood Corporation	2,064	1,029	—
TOTAL	$2,064	$2,010	$1,944

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions[1]	Balance at End of Period
		($000's)		
Allowance for doubtful accounts				
2004	$37	$ 6	$ 6	$37
2003	$40	$ 13	$16	$37
2002	$84	$(14)	$30	$40

(1) Amounts include accounts receivable write-offs net of recoveries.

Valuation allowance for deferred tax asset (2)				
2004	$300	$ —	$—	$300
2003	$300	$ —	$—	$300
2002	$ —	$300	$—	$300

(2) See Note 2 in the Notes to the accompanying Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 31st of March 2005.

PENNICHUCK CORPORATION

By: /s/ DONALD L. CORRELL
Donald L. Correll,
President and Chief Executive Officer

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

Signature	Title	Date
/s/ DONALD L. CORRELL **Donald L. Correll**	President, Chief Executive Officer and Director (Principal Executive Officer)	March 31, 2005
/s/ WILLIAM D. PATTERSON **William D. Patterson**	Vice President, Treasurer and Chief Financial Officer (Principal Accounting Officer)	March 31, 2005
Joseph A. Bellavance	Director	
/s/ STEVEN F. BOLANDER **Steven F. Bolander**	Director	March 31, 2005
/s/ MICHELLE L. CHICOINE **Michelle L. Chicoine**	Director	March 31, 2005
/s/ CHARLES E. CLOUGH **Charles E. Clough**	Director	March 31, 2005
/s/ ROBERT P. KELLER **Robert P. Keller**	Director	March 31, 2005
/s/ JOHN R. KREICK **John R. Kreick**	Director	March 31, 2005
Hannah M. McCarthy	Director	
/s/ MARTHA E. O'NEILL **Martha E. O'Neill**	Director	March 31, 2005

Exhibit 31.1

SECTION 302 CERTIFICATION OF THE PRESIDENT AND PRINCIPAL EXECUTIVE OFFICER

I, Donald L. Correll, certify that:

1. I have reviewed this annual report on Form 10-K of Pennichuck Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2005

/S/ DONALD L. CORRELL

Donald L. Correll, President and
Principal Executive Officer

Exhibit 31.2

SECTION 302 CERTIFICATION OF THE VICE PRESIDENT, TREASURER AND PRINCIPAL FINANCIAL OFFICER

I, William D. Patterson, certify that:

1. I have reviewed this annual report on Form 10-K of Pennichuck Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2005

/s/ WILLIAM D. PATTERSON

William D. Patterson, Vice President, Treasurer and Principal Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K for the year ended December 31, 2004 of Pennichuck Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald L. Correll, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.

Date: March 31, 2005

/S/ DONALD L. CORRELL

Name: Donald L. Correll
Title: President and Chief Executive Officer

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K for the year ended December 31, 2004 of Pennichuck Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William D. Patterson, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.2 is expressly and specifically incorporated by reference in any such filing.

Dated: March 31, 2005

/s/ WILLIAM D. PATTERSON

Name: William D. Patterson
Title: Vice President, Treasurer
and Chief Financial Officer

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

FORM 10-K

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For The Fiscal Year Ended December 31, 2003

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)

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

Four Water Street
Nashua, New Hampshire 03061
(603) 882-5191
(Address and telephone number of principal executive offices)

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $1.00 per share
(Title of Class)
Preferred Stock Purchase Rights
(Title of Class)

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 _X_ No ____

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2):
Yes ____ No _X_

The aggregate market value of the common stock held by non-affiliates of the registrant, based on the closing sale price of the Company's common stock on June 30, 2003, as reported on the Nasdaq National Market was $59,184,658. For purposes of this calculation, the "affiliates" of the registrant include its directors and executive officers. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

The number of shares of the registrant's common stock, $1 par value, outstanding as of March 25, 2004 was 2,396,340.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part III of this report is incorporated by reference to the registrant's definitive Proxy Statement for its 2004 annual meeting of the registrant's shareholders filed with the Commission.

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PART I

Item 1. BUSINESS

Overview

Pennichuck Corporation (the "Company") is a holding company based in Nashua, New Hampshire. Its principal operating subsidiaries are engaged primarily in the collection, storage, treatment, distribution and sale of potable water throughout southern and central New Hampshire. These subsidiary corporations – Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. ("Pittsfield"), are each engaged in business as a regulated public utility, subject to the jurisdiction of the New Hampshire Public Utilities Commission (the "NHPUC"). They collectively serve approximately 29,400 residential and commercial and industrial customers. The Company was formed in 1983 following the reorganization of Pennichuck Water Works, which was first established in 1852, into a dedicated water utility. At the same time several tracts of land, formerly held for watershed protection purposes, were transferred to The Southwood Corporation ("Southwood"). Southwood is involved in the development of commercial and residential real estate. The Company also conducts non-regulated, water-related management services and contract operations through another subsidiary, Pennichuck Water Service Corporation (the "Service Corporation").

Our Water Business

Pennichuck is franchised by the NHPUC to gather and distribute water in the City of Nashua, New Hampshire and in portions of the towns of Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford and Plaistow, New Hampshire. Pennichuck has transmission mains which directly interconnect its core system in Nashua with the surrounding towns of Amherst, Hudson, Merrimack and Milford. Its core system, which services nearly 22,100 customers, accounts for 95% of Pennichuck's revenues. Its franchises in the remaining towns consist of stand-alone satellite water systems serving over 2,100 customers. Pennichuck has no competition in its core franchise area. Currently, approximately 25% of its water revenues are derived from commercial and industrial customers and approximately 57% from residential customers, with the balance being derived from fire protection and other billings to municipalities, principally the City of Nashua and the towns of Amherst, Merrimack and Milford. Pennichuck's annual water revenues were approximately $14.75 million for calendar year 2003.

Pennichuck East was organized in 1998 to acquire certain water utility assets from the Town of Hudson, New Hampshire ("Hudson"), following its acquisition of those assets from an investor-owned water utility which previously served Hudson and surrounding communities. Pennichuck East is franchised to gather and distribute water in the New Hampshire towns of Litchfield, Pelham, Windham, Londonderry, Derry, Raymond and Hooksett, which are areas adjacent to the service franchise served by Pennichuck. Pennichuck East has no competition in its core franchise area. The water utility assets owned by Pennichuck East consist principally of water transmission and distribution mains, hydrants, wells, pump stations and pumping equipment, water services and meters, easements and certain tracts of land. Pennichuck East serves approximately 4,450 customers and annual water revenues were approximately $2.98 million for calendar year 2003.

Pittsfield was acquired by the Company in 1998 and serves approximately 640 customers in and around Pittsfield, New Hampshire with annual water revenues of approximately $447,000. Pittsfield has no competition in its franchise area.

Regulation

The Company's water utilities are regulated by the NHPUC with respect to their water rates, financings and provision of service. New Hampshire law provides that utilities are entitled to charge rates which permit them to earn a reasonable return on the cost of the property employed in serving its customers, less accrued depreciation, contributed capital and deferred income taxes ("Rate Base"). The cost of capital permanently employed by a utility in its utility business marks the minimum rate of return which a utility is lawfully entitled to earn on its Rate Base. Pennichuck's water rates that were in effect during 2003 were based on a March 2002 NHPUC order in which Pennichuck was granted an overall permanent rate increase of 14.43% based on an overall rate of return of 8.58% and an approved rate base of approximately $43.1 million. Pennichuck East is authorized an overall rate of return of 8.37% on an approved rate base of approximately $7.5 million. Pittsfield is authorized an overall rate of return of 8.42% on an approved rate base of approximately $1.6 million.

The Company's water utilities are subject to the water quality regulations issued by the United States Environmental Protection Agency ("USEPA") and the New Hampshire Department of Environmental Services ("NHDES"). The USEPA is required to periodically set new maximum contaminant levels for certain chemicals as required by the federal Safe Drinking Water Act ("SDWA"). The quality of the Company's water utilities' treated water currently meets or exceeds all current standards set by the USEPA and the NHDES.

Pennichuck's filtration plant in Nashua is impacted by the Interim Enhanced Surface Water Treatment Rule ("IESWTR") which established a new turbidity standard of 0.3 NTU. Pennichuck will complete its evaluation of alternatives to meet the new IESWTR turbidity standard and it expects to determine what modifications will be required to its filtration plant by the end of March 2004.

Two of Pennichuck's small community water systems have wells that produce water with arsenic levels in excess of the new standard of 10 ppb. It will be necessary for Pennichuck to install arsenic treatment systems at these locations. Pennichuck's and Pennichuck East's remaining community water systems have wells that produce water meeting the new arsenic standard.

Capital expenditures associated with federal and state water quality standards have historically been recognized and approved by the NHPUC for inclusion in our utilities' water rates.

Contract and Real Estate Operations

The Company formed the Service Corporation to conduct its non-regulated, water-related activities. Its activities initially included providing contract operations and maintenance, water testing and billing services to municipalities. In 1998, the Service Corporation entered into a long-term agreement with the Town of Hudson to provide operations and maintenance contract services to the town with respect to the water utility assets it acquired from an investor-owned water utility. In September 2001, the Service Corporation also entered into a long-term agreement with the Town of Salisbury, Massachusetts to perform similar operations and maintenance services.

The NHDES has mandated water quality standards for non-transient, non-community water systems ("NTNCWS") – defined as public facilities such as schools, apartment and office buildings accommodating more than 25 persons and served by a community well. There are an estimated 600 such NTNCWS in New Hampshire which will require the services of a certified water operator, such as the Service Corporation, in order to meet the mandates of the NHDES. Accordingly, the Service Corporation is actively pursuing new contracts under which it would serve as a certified water operator and provide various water-related monitoring, maintenance, testing and compliance reporting services for these systems in New Hampshire. During 2003, the Service Corporation provided such services pursuant to 67 operating contracts.

Southwood, the Company's real estate subsidiary, was organized for the purpose of owning, developing, selling and managing approximately 1,088 acres of undeveloped land in Nashua and Merrimack, New Hampshire formerly owned by Pennichuck Water Works for watershed protection purposes.

Since 1988, Southwood has been involved in the planning and development of Southwood Corporate Park, a 65-acre commercially zoned land parcel located in Nashua, New Hampshire. From 1988 through 2001, Southwood sold four lots totaling 25 acres in the Corporate Park. In January 2002, Southwood sold the remaining 40 acres to Winstanley Enterprises, Inc. ("Winstanley"), a regional real estate developer, under the terms of an option agreement between Southwood and Winstanley. Under that 1995 agreement, Winstanley paid to Southwood an option fee each year equal to the annual carrying costs associated with that land.

In September 1997, Southwood and Winstanley formed Westwood Park LLC ("Westwood") to develop a 404-acre tract of land in northwest Nashua zoned for park-industrial use. Southwood conveyed the land to Westwood in exchange for a 60% interest in Westwood. Since 1997, Westwood has sold four parcels totaling approximately 364 acres to third parties, leaving a balance of approximately 40 acres which are restricted in use for future groundwater supplies.

Southwood holds a 50% ownership interest in HECOP I, LLC, HECOP II, LLC and HECOP III, LLC, which are limited liability corporations formed to construct and own a 39,000 square foot, a 42,000 square foot and a 66,000 square foot office building, respectively, located in Merrimack, New Hampshire. As of December 31, 2003, approximately 121,000 square feet had been leased to third parties under long-term lease agreements. Southwood also holds a 50% ownership interest in HECOP IV, LLC formed in May 2002. As of December 31, 2003, HECOP IV's principal asset was approximately 9.1 acres of raw land available for future commercial development. The remaining 50% ownership interest in each of these four LLC's is held by John Stabile, a local developer, with whom Southwood has participated in four residential joint ventures during the past 10 years.

In July 1998, Southwood entered into a joint venture known as Heron Cove at Bowers Pond LLC ("Heron Cove") for the development of an 87 unit, single-family community located in Merrimack, New Hampshire. Under the terms of the joint venture agreement, Southwood conveyed the related land parcel to Heron Cove in exchange for a non-interest bearing note secured by a second mortgage on the real estate conveyed. Southwood holds a 50% ownership interest in this joint venture. The remaining 50% ownership interest is held by John Stabile, a local developer. As of December 31, 2001, all 87 units had been constructed and sold to third parties and this LLC was closed out in 2002.

Financial Information About Industry Segments

The business segment data of the Company and its subsidiaries for the latest three years is presented in "Note 12 - Business Segment Information" in the accompanying Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K Report.

Employees

The Company, through its principal subsidiary Pennichuck, employs 82 permanent, full-time employees and officers. Of these, there are 43 management and clerical employees who are non-union. The remaining employees are members of the United Steelworkers Union. The current union contract, which was re-negotiated in February 2002, expires in February 2007. In the opinion of management, employee relations are satisfactory.

Additional Information

The Company's Internet address is www.pennichuck.com. The Company's web site provides a hyperlink to a third party web site through which the Company's annual, quarterly and current reports, and amendments to those reports, are available free of charge. The Company believes these reports are made available as soon as reasonably practicable after it electronically files them with, or furnishes them to, the Securities and Exchange Commission ("SEC"). The Company does not maintain or provide any information directly to the third-party web site, and does not check its accuracy. The public can also obtain access to such reports at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549, by calling the SEC at 1-800-SEC-0330 or by accessing the SEC's web site which is www.sec.gov.

RISK FACTORS

Risks Related to the Company's Business

The City of Nashua's use of the power of eminent domain to acquire certain of the water utility assets of the Company may result in material, adverse consequences to the Company and its shareholders.

The Company is involved in ongoing proceedings with the City of Nashua (the "City") regarding the City's desire to acquire all or a portion of the Company's water utility assets. The City has determined to pursue such acquisition pursuant to its power of eminent domain. Separately, several other communities whose residents are served by one or more of the Company's subsidiaries have expressed interest in forming a regional water authority for the purposes of acquiring and operating a substantial portion of the Company's water related assets. The acquisition of Company assets by eminent domain would be highly uncertain and likely involve protracted proceedings before the New Hampshire Public Utilities Commission ("NHPUC"). The Company's shareholders are not required to ratify or approve any such forced sale of assets, or the price thereof, if so approved by the NHPUC. Given the highly integrated nature of the Company's businesses, a forced sale of some or all of the Company's water related assets may result in increased costs and operating inefficiencies borne by the remaining assets of the Company not so acquired. Additionally, the Service Corporation's ability to service its existing contracts as well as pursue additional operating contracts may be impaired. There is no assurance that the City or a regional water authority, if any, would be successful in acquiring some or all of the Company's assets by eminent domain, nor in such case is there any assurance as to the price determined by the NHPUC to be paid for those assets.

Risks Related to Water Business

The Company's main source of revenues and earnings is its water utility operations. The water supply and distribution industry is subject to regulations and uncertainties which affect the Company and its financial operations in varying degrees.

Rate Regulation. The Company's water utility subsidiaries, Pennichuck, Pennichuck East and Pittsfield are regulated by the NHPUC with respect to the rates we charge our customers for water and the amount of our capital and debt financing. The profitability of our water operations is largely dependent on the timeliness and adequacy of rate relief allowed by the NHPUC.

Regulatory Lag. The NHPUC generally provides our water utilities with the opportunity to earn a rate of return on our capital invested in property used to serve our customers. However, a delay, known as "regulatory lag," normally occurs between the time capital is invested and the effective date of increased water rates, which reflect that investment.

Water Quality Concerns; Changes in Regulatory Standards. Water utility companies are always subject to certain water quality risks related to environmental contamination. Our water systems have water treatment and alternate water source and storage facilities available as short-term sources of supply in the event of contamination of one of our water sources. While our treated water currently meets or exceeds all standards set by federal and state authorities, it is possible that new or stricter standards could be imposed that will raise our operating costs significantly. Although these costs would likely be recovered in the form of higher rates, there can be no assurance that the NHPUC would approve a rate increase to recover such costs.

Dam Safety. Pennichuck initiated an engineering study of two of its eight dams in 2002. The two dams being studied, the Supply and Harris Pond dams, were the last ones remaining to be studied to insure that the dams, crucial to the operation of Pennichuck, meet all current dam safety standards. The results of the completed study indicated that certain upgrades to the dams' spillways and earthen embankments were required in order to meet current NHDES and Federal standards. The engineering plans and permitting were completed in the fall of 2003 and the required construction will be completed in 2004. The estimated cost of the required dam repairs and upgrades will be about $950,000.

The proposed dam and repair upgrade time frame has been accepted by the NHDES. Pennichuck could face adverse regulatory actions in the event it is unable to remedy the dam deficiencies within this time period.

Threats to Nation's Health and Security. Water utility companies have generally been on a heightened state of alert since the threats to the nation's health and security in the fall of 2001. The USEPA recently issued a set of instructions to describe what community water systems must do to comply with the Public Health Security and Bioterrorism Preparedness and Response Act of 2002. The Act requires all community drinking water systems that serve more than 3,300 people to certify and submit assessments to the USEPA no later than June 2004. We have taken steps to increase security at our water utility facilities, heightened employee awareness of threats to our water supplies, and added security measures regarding the delivery and handling of certain chemicals used in our business. We are not aware of any specific threats to our water utility businesses or other operations.

Impact of Weather and Seasonal Demands. The demand for our water and our revenues is impacted by weather and is seasonal in nature. Normally, our most profitable quarters are the second and third calendar year quarters due to increased water consumption during the late spring and summer months. Demand is normally lower during cool, wet springs and summers than it is during warm, hot springs and summers.

Dependence on Certain Industrial Customers. Approximately $3.66 million of our operating revenues are derived from commercial and industrial customers. Pennichuck's largest water customer, Anheuser

Busch ("AB"), was responsible for about 16.1% of its demand in 2003. In the short term, our profitability would be adversely impacted were AB to significantly reduce its water requirements in the future or if our other commercial and industrial customers materially reduce their use of our water.

Pennichuck and AB have entered into a ten-year contract that provides the terms and conditions under which AB receives service from Pennichuck. The contract provides for a supply of up to 2 million gallons per day for the AB plant in Merrimack, New Hampshire. AB pays a cost-of-service based rate that is approximately 52% of the retail volumetric rate. The contract contains a "minimum payment obligation" clause that requires AB to pay, each year, at least 90% of the volumetric charges of the prior year. The contract provides that, should AB opt for early termination, there is a minimum annual charge to AB of 90%, 66.67% and 33.3% in the first, second and third year following the year of notification of early termination, respectively, based on the annual charge in the year of notification. In such case, we would seek the approval of the NHPUC to increase the rates of our remaining customers to recover any lost revenues from the loss of such a major industrial customer. Any increase in our rates and improvement in our profitability from a loss of a major customer could take at least 12 months to realize, an example of regulatory lag. In addition, there can be no assurance that the NHPUC would approve such a rate increase request.

Risks Related to Real Estate Business

Development Risks. Southwood, our real estate subsidiary, is the owner of several tracts of land located in southern New Hampshire which are planned for development. The demand and prices for Southwood's real estate are dependent upon interest rates and construction costs as well as general economic conditions.

Carrying Costs. Real estate assets are subject to ongoing maintenance costs and property taxes. Reductions in demand for our properties may cause us to continue to incur operating costs without any offsetting income.

Building Vacancies. Southwood has a 50% ownership interest in three separate joint ventures owning commercial office buildings located in Merrimack, New Hampshire. Southwood's share of the net operating income from leases associated with those buildings could be adversely impacted by a downturn in the local economy and commercial real estate market.

Item 2. PROPERTIES

Office Buildings

The Company owns and occupies a three story, 11,616 square foot building located in downtown Nashua, New Hampshire. It also owns a separate building in Nashua which serves as an operations center and storage facility for its construction and maintenance activities. Except as noted in "Note 3- Debt" in the accompanying Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K Report, there are no mortgages or encumbrances on our properties.

Water Supply Facilities

Pennichuck's principal properties are located in Nashua, New Hampshire, with the exception of several source-of-supply land tracts which are located in the neighboring towns of Amherst, Merrimack and Hollis, New Hampshire. In addition, Pennichuck owns four impounding dams which are situated on the Nashua and Merrimack border.

The location and general character of Pennichuck's principal plant and other materially important physical properties are as follows:

1. Holt Pond, Bowers Pond, Harris Pond and Supply Pond and related impounding dams comprise the chief source of water supply in Nashua, New Hampshire.

2. An Infilco Degremont treatment plant using physical chemical removal of suspended solids and sand and carbon filtration with a rated capacity of 35 million gallons per day, located in Nashua, New Hampshire.

3. A water intake plant and pumping facility located on the Merrimack River in Merrimack, New Hampshire. Pennichuck has a permit from the Army Corps of Engineers to withdraw up to 30 million gallons per day of water from the Merrimack River at this intake. The existing pumps are capable of providing up to 16.2 million gallons per day. This supplemental water supply provides an additional source of water during dry summer periods and will provide a long-term supply for Pennichuck's service area.

4. Approximately 672 acres of land located in Nashua and Merrimack which are owned and held for watershed and reservoir purposes.

5. Eleven water storage reservoirs having a total storage capacity of 20.7 million gallons, six of which are located in Nashua, two in Amherst, one in Bedford, one in Derry and one in Hollis, New Hampshire.

The source of supply for Pennichuck East is a well system owned by the Town of Hudson in Litchfield, New Hampshire, purchased water from the Manchester Water Works or individual bedrock wells. Pennichuck East has entered into long-term water supply agreements to obtain water from Hudson and Manchester Water Works.

The Pittsfield Aqueduct Company owns the land surrounding Berry Pond and it treats the water from this Pond through a .5 mgd water filtration plant located in Pittsfield, New Hampshire. Berry Pond serves as the sole source of supply for Pittsfield.

Water Distribution Facilities

The distribution facilities of the Company's regulated water companies consist of, among other assets, the following:

	Pennichuck	Pennichuck East	Pittsfield
Transmission & distribution mains (in miles)	412	119	13
Services	23,670	4,597	635
Meters	23,952	4,352	681
Hydrants	2,287	403	66

Land Held for Future Development

Following Pennichuck Water Works' reorganization in 1984 into a holding company structure, the Company transferred 402 acres of previously designated watershed protection land to Pennichuck and approximately 1,088 acres of buffer and alternate use land were transferred to Southwood. Since 1984, Southwood has sold or transferred approximately 836 acres of land to third parties or to participating joint ventures.

Based on vegetation, topographical, wetland and hydrological studies, the Company and Southwood have designated their remaining 525 acres into buffer (non-developable) and alternate use (developable) designations, resulting in an approximate breakout of 283 and 242 acres, respectively. Of the approximately 242 acres of alternate use land, 36 acres are located primarily in the northwestern section of the City of Nashua, New Hampshire and 206 acres are located in the western and southerly portions of the town of Merrimack, New Hampshire. The following table summarizes the currently approved zoning for alternate use land at December 31, 2003:

	Nashua, NH	Merrimack, NH	Total
Residential	36	101	137
Industrial	--	105	105
Total Alternate Use Acreage	36	206	242

The Company's and Southwood's landholdings in Nashua and Merrimack are classified under "Current Use" status, resulting in an assessment that is based on the property's actual use and not its highest or best use.

Item 3. LEGAL PROCEEDINGS

Regulatory Investigation

The Company is the subject of an investigation by the New Hampshire Bureau of Securities Regulation (the "Bureau") and the Securities and Exchange Commission (the "SEC"). The scope of the investigation relates generally to the Company's commercialization of real estate through joint ventures involving its Southwood Corporation subsidiary and, in particular, to certain of the Company's public disclosures regarding various joint venture transactions. Specifically, the Bureau and the SEC have alleged that in Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB, the Company improperly disclosed the purchase of a home by Maurice L. Arel, the Company's former President who is also a target of the investigation, from one of the Company's real estate joint ventures as being "on the same terms which would be given to any independent third-party". In fact, the purchase was not made on such terms, and the Company believes that Mr. Arel received a benefit in the range of $50,000 to $75,000 in connection with the purchase.

In addition, the Bureau and the SEC have alleged that the Company failed to properly disclose payments from the Company's real estate joint ventures to a landscaping company with which one of Mr. Arel's sons was involved. During the seven-year period from 1996 to 2002, six of the Company's joint ventures engaged for various landscaping projects a company with which one of Mr. Arel's sons was involved. The joint ventures' payments to that landscaping company totaled approximately $517,600 during that period. In three of those years, the aggregate payments for the year exceeded $60,000. In

1999, the joint ventures paid the landscaping company a total of $259,000, the greatest amount that the joint ventures paid to the landscaping company during a single year.

The regulators have also alleged that the Company failed to disclose the fact that nearly all of its real estate joint ventures had been formed with the same developer, and that the Company did not exercise proper oversight of the activities of those various joint ventures, including by failure to obtain or to keep adequate records, including copies of financial records, contracts, correspondence or other material information.

The Company's board of directors retained legal counsel to conduct an independent review of the allegations, under the direction of the Company's Audit Committee, and instructed the Company's executive officers and counsel to cooperate fully with the investigation by the Bureau and the SEC. That independent review is now substantially complete and the Company's counsel has briefed the regulators on the board's findings. In addition, and as a result of the independent review, Mr. Arel's employment with the Company and its subsidiaries was terminated in early May 2003.

The Bureau and the SEC could seek to impose fines, penalties or other sanctions upon the Company as a result of their respective investigations. In November 2003, the Bureau and the SEC indicated a willingness to consider a global settlement of their claims against the Company and against Mr. Arel. Although no agreement or understanding has been reached, the framework of the settlement that is under consideration would consist of a fund to be established for the benefit of the Company's shareholders, a fine to be paid to the Bureau, and a payment to the Bureau to defray its expenses. In addition to the negotiations with the Bureau and the SEC regarding the proposed settlement, the Company is also engaged in negotiations with Mr. Arel as to what portion, if any, of the settlement amounts he would be responsible for paying. There can be no assurance that a settlement agreement with the regulators and Mr. Arel will in fact be reached.

Municipalization Efforts

The City of Nashua (the "City") formally notified the Company's utility subsidiaries on February 5, 2003 of its intention to acquire all or a portion of their plant and property. The notification letters from the City stated that the City was acting pursuant to New Hampshire's utility municipalization statute. On March 25, 2003, the Company's three utilities notified the City of their decision not to sell their plant and property. Under New Hampshire statutes, a municipality may seek the NHPUC's authorization to compel the sale of utility assets through an eminent domain proceeding if the utility does not agree to sell the assets voluntarily. By letter dated March 26, 2003, the City indicated its intent to pursue such an eminent domain proceeding. The City and the Company have had discussions since that time regarding the City's desire to acquire the Company's assets, the particular assets that the City is interested in acquiring and the price that the City would be willing to pay for those assets.

On April 8, 2003, the Town of Pittsfield formally notified Pittsfield Aqueduct Company, Inc. that it wished to acquire the plant and property of that company. The letter indicated that the Town was providing its notification pursuant to the New Hampshire utility municipalization statute. By letter dated May 28, 2003, Pittsfield Aqueduct Company, Inc. notified the Town of Pittsfield of its decision not to sell its plant and property. To date, the Town of Pittsfield has not commenced an eminent domain proceeding at the NHPUC.

On March 25, 2004, the City filed a petition for valuation pursuant to New Hampshire RSA 38:9 with the NHPUC. That petition asks the NHPUC to order a determination of the fair market value of the assets of Pennichuck, Pennichuck East and Pittsfield and to allow the City to acquire these assets. It is not certain whether the City will ultimately choose to complete the acquisition of any portion of the property of the Company's utility subsidiaries even if the NHPUC ultimately approves such an acquisition and establishes a price for it.

Other Proceedings

The Company and its subsidiaries are not otherwise involved in any material litigation or other proceedings which, in management's opinion, would have an adverse effect on the business, the consolidated financial condition or the operating results of the Company and its subsidiaries.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the fiscal year covered by this Report, no matters were submitted to a vote of security holders.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is quoted on the Nasdaq National Market System ("NMS") under the symbol "PNNW." On December 31, 2003, there were approximately 700 holders of record of the 2,396,140 shares of the Company's Common Stock outstanding.

The following table sets forth the comparative market prices per share of the Company's Common Stock based on the high and low closing sales prices as reported on the Nasdaq NMS during the applicable periods and the dividends declared by the Company during those periods. All stock information has been adjusted to reflect the four-for-three stock split effected December 3, 2001.

Period	High	Low	Dividends Declared
2003:			
Fourth Quarter	$28.73	$23.90	$.215
Third Quarter	26.91	24.06	.215
Second Quarter	25.44	21.75	.215
First Quarter	28.48	21.01	.195
2002:			
Fourth Quarter	$29.58	$27.10	$.195
Third Quarter	28.34	23.65	.228 (1)
Second Quarter	31.54	24.55	.195
First Quarter	26.44	24.21	.195

(1) Includes a special one-time dividend of $.033 per share.

Certain bond and note agreements involving the Company's subsidiary, Pennichuck Water Works, Inc. ("Pennichuck"), require, among other things, restrictions on the payment or declaration of dividends by Pennichuck to the Company. Under Pennichuck's most restrictive covenant, approximately $4.38 million of its retained earnings was unrestricted for payment or declaration of common dividends to the Company at December 31, 2003. See Note 3 of the accompanying Notes to Consolidated Financial Statements for further discussion regarding this and other debt covenants.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes information, as of December 31, 2003, relating to the equity compensation plans of the Company pursuant to which equity securities of the Company are authorized for issuance.

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders (1)	109,838	$23.04	141,501
Equity compensation plans not approved by security holders (2)	-0-	-	No express number set by plan (2)
Total	109,838	$23.04	141,501

(1) These plans are the Company's 1995 Stock Option Plan and the 2000 Stock Option Plan.

(2) The Company adopted a Deferred Compensation Program for Directors of Pennichuck Corporation in 1987, as amended in 1997 (the "Plan"). The Plan enables directors to defer receipt of all or part of their annual retainer and meeting fees until the individual ceases to be a director or upon age 70, if earlier. Participating directors under the plan have the option of (1) deferring receipt of such fees, with interest accruing thereon based on the Company's average cost of money for its short term borrowings, or (2) converting such fees on a semi-annual basis into common share equivalents based on the closing bid price of the Company's common stock on the conversion date, with dividends credited to the participant on such unit share equivalents and similarly converted into additional common share equivalents. Upon termination of the deferral period, participating directors receive a distribution consisting either of the full amount of cash and interest accrued to his/her account or shares of restricted common stock of the Company equal to the number of unit share equivalents so accumulated. No directors are presently participating in this Plan. The plan does not provide for a maximum number of shares of common stock that may be issued under the Plan.

Item 6. SELECTED FINANCIAL DATA

	2003	2002	2001	2000	1999
Operating revenues (in $000's)	$21,388	$23,422	$22,754	$23,671	$17,809
Net income (in $000's)	$1,247	$2,341	$ 3,612	$3,683	$ 2,616
Earnings per share - basic	$.52	$.98	$ 1.52	$1.56	$ 1.12
Cash dividends declared per share of common stock	$0.84	$0.813 (1)	$ 0.76	$0.73	$ 0.69
Total assets (in $000's)	$97,210	$90,982	$87,630	$82,880	$75,581
Long-term debt (in $000's)	$27,247	$27,214	$27,420	$27,237	$28,266

(1) Includes a one-time special dividend of $0.33 per share

Prior year per share amounts have been restated to reflect the four-for-three stock split in December 2001.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Pennichuck Corporation (the "Company") has five wholly-owned subsidiaries. Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. ("Pittsfield") are involved in water supply and distribution in cities and towns throughout southern and central New Hampshire. These water subsidiaries are regulated by the New Hampshire Public Utilities Commission ("NHPUC") and, as such, they must obtain approval to increase their water rates to recover increases in operating expenses and to obtain the opportunity to earn a return on rate base investments. Pennichuck Water Service Corporation (the "Service Corporation") is involved in non-regulated, water-related services and contract operations and The Southwood Corporation ("Southwood") owns, manages, develops, and sells real estate, principally through real estate joint ventures.

As you read Management's Discussion and Analysis, please refer to the Company's Consolidated Financial Statements and Notes to Consolidated Financial Statements and Selected Financial Data contained in this Report.

Forward-Looking Statements

In addition to the historical financial information, this report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based on current information and expectations available to management at the time the statements are made and on several assumptions concerning future events that involve risks, uncertainties and factors which may be beyond the Company's control. As such, the actual performance of the Company may be materially different from the future results or performance implied by the forward-looking statements contained in this report. Such factors include, among other things, whether eminent domain proceedings are commenced against some or all of the Company's water utility assets, the success of pending applications for rate increases, changes in governmental regulations, changes in the economic and business environment that may impact demand for the Company's water and real estate products, changes in capital requirements that may affect the Company's level of capital expenditures, changes in business strategy or plans and unusual changes in weather conditions that impact water consumption. Accordingly, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Eminent Domain

The Company is the subject of eminent domain efforts by the City of Nashua (the "City") and the Town of Pittsfield (the "Town") regarding their desire to acquire all or a portion of the Company's water utility assets. In addition, a number of other communities whose residents are served by one or more of the Company's subsidiaries have expressed interest in forming a regional water authority for the purposes of acquiring and operating a substantial portion of the Company's water related assets. The acquisition of Company assets by eminent domain would be highly uncertain and likely involve protracted proceedings before the New Hampshire Public Utilities Commission ("NHPUC"). The Company's shareholders are not required to ratify or approve any such forced sale of assets, or the price thereof, if so approved by the NHPUC.

Given the highly integrated nature of the Company's businesses, a forced sale of some or all of the Company's water related assets may result in increased costs and operating inefficiencies borne by the remaining assets of the Company not so acquired. Additionally, the Service Corporation's ability to service its existing contracts as well as pursue additional operating contracts may be impaired. There is no assurance that the City of Nashua or a regional water authority, if any, would be successful in acquiring some or all of the Company's assets by eminent domain, nor in such case is there any assurance as to the price determined by the NHPUC to be paid for those assets. The status of these eminent domain efforts is discussed in greater detail in Note 9 to the Notes to Consolidated Financial Statements.

On February 4, 2004, the Company filed a Petition for Declaratory Judgment against the City, seeking a determination by the New Hampshire Superior Court that, among other things, the State utility municipalization statute is unconstitutional and the City has failed to commence eminent domain proceedings at the NHPUC in a timely fashion and therefore is barred from continuing the current utility municipalization process against the Company.

Terminated Merger With Philadelphia Suburban Corporation

On April 29, 2002, the Company entered into a definitive agreement with Philadelphia Suburban Corporation ("PSC") to merge into a wholly-owned subsidiary of PSC with shareholders of the Company receiving shares of PSC in the merger. Total expenses associated with the PSC merger transaction were approximately $231,000 and $1,946,000 for the twelve months ended December 31, 2003 and 2002, respectively. As discussed in Note 9 to the Notes to the Consolidated Financial Statements, the Company and PSC mutually decided to terminate the merger agreement on February 4, 2003 following a January 14, 2003 referendum by the City of Nashua, New Hampshire. The referendum authorized the City to pursue the acquisition, by an eminent domain proceeding or otherwise, of all or a portion of the Company's water works systems serving the residents of Nashua and other communities in which the Company's three regulated utilities operate.

Results of Operations

In this section, we discuss our 2003, 2002 and 2001 results of operations and the factors affecting them. The Company's operating activities, as discussed in greater detail in Note 12 to the Notes to Consolidated Financial Statements, are grouped into three primary business segments as follows:

> <ins>Water utility operations</ins>- Involved in the collection, treatment and distribution of potable water for domestic, industrial, commercial and fire protection service in the City of Nashua and certain surrounding communities in southern and central New Hampshire.
>
> <ins>Real estate</ins> - Involved in the ownership, development, management and sale of industrial and residential property in Nashua and Merrimack, New Hampshire.
>
> <ins>Contract operations</ins> - Includes the contract operations and laboratory testing activities of the Service Corporation.

Our consolidated revenues tend to be significantly affected by weather conditions experienced throughout the year and by sales of major real estate parcels which may occur from time to time. Water revenues are typically at their lowest point during the first and fourth quarters of the calendar year. Water revenues in the second and third quarters tend to be greater because of increased water consumption for non-essential usage by our customers during the late spring and summer months.

Results of Operations – 2003 Compared to 2002

For the year ended December 31, 2003, the Company's consolidated net income was $1.25 million, compared to net income of $2.34 million in 2002, a decrease of nearly 47%. On a per share basis, basic income per share was $.52 for the twelve months ended December 31, 2003, a $.46 per share decrease from last year. This decrease in consolidated net income was due to, among other things, approximately $1.11 million in expenses incurred during 2003 relating to the terminated merger with PSC, the pending regulatory investigations and the eminent domain issue with the City as discussed herein. Excluding the effect of those expenses in 2003 and 2002, consolidated net income was $2.02 million, or $.84 per share and $3.53 million, or $1.48 per share, respectively. Further contributing to this decrease in net income was an 8.7% decrease in consolidated revenues primarily from a decline in both the Company's regulated water and real estate businesses.

Water Utility Operations

On a combined basis, net income of our three utilities in calendar year 2003 was approximately $1.32 million, a decrease of $1.21 million from 2002 principally due to lower than normal water consumption experienced in the third quarter of 2003 and an increase in distribution, production and administrative costs as discussed below.

Utility operating revenues for 2003 decreased to $18.68 million, or less than 1% from 2002. For 2003, approximately 82%, 16% and 2% of our total utility operating revenues were generated by Pennichuck, Pennichuck East and Pittsfield, respectively, as shown in the following table.

	2003	2002	Change
Pennichuck	$15,254,000	$15,344,000	$(90,000)
Pennichuck East	2,979,000	3,098,000	(119,000)
Pittsfield	447,000	388,000	59,000
Total	$18,680,000	$18,830,000	$(150,000)

The overall decline in water revenues reflects the greater level of precipitation experienced in the regions served by our water utilities during the third quarter of 2003 over the third quarter of 2002. Total rainfall in the third quarter of 2003 was nearly 14 inches compared to only 7.3 inches in the third quarter of 2002. As a result, the combined billed consumption of our three utilities declined by 2.9% from 2002. However, that negative impact on water revenues was partially offset by the positive effect of (i) a 5.76% rate increase approved by the NHPUC and implemented by Pennichuck in April 2002 and (ii) a 2.0% increase in customers over 2002, resulting in a total combined customer base of approximately 29,400 as of December 31, 2003.

In May 2003, Pittsfield filed a Notice of Intent to File for Rate Relief in which it sought an increase in its annual revenues. That rate case was concluded in December 2003 and in January 2004 the NHPUC granted an increase of 17.7%, representing additional annual revenues of approximately $73,000. This rate increase is effective for water bills rendered on and after January 1, 2004.

By late March or early April 2004, Pennichuck intends to file a Notice of Intent to File for Rate Relief in which it will be seeking a 9.7% rate increase for temporary rate relief effective on or about June 1, 2004 and an additional increase in its permanent rates effective on or about December 1, 2004. It is not certain whether or not this rate case will be concluded by the end of 2004 or the amount of rate increase which will ultimately be granted by the NHPUC, if any.

For the year ended December 31, 2003, utility operating expenses increased by $1.78 million, or 13.9%, to $14.57 million as shown in the table below.

	2003	2002	Change
Operations & maintenance	$9,406,000	$8,057,000	$1,349,000
Depreciation & amortization	2,843,000	2,639,000	204,000
Taxes other than income taxes	2,318,000	2,089,000	229,000
Total	$14,567,000	$12,785,000	$1,782,000

The operations and maintenance expenses of our water utility business include such categories as:

- water supply, treatment, purification and pumping,
- transmission and distribution system functions, including repairs and maintenance and meter reading, and
- customer service and general and administrative functions.

The combined increase in our utilities' operating expenses over 2002 was chiefly the result of the following:

- $240,000 of increased purification and treatment costs in our core Pennichuck system reflecting higher purchased water, power, chemical and labor costs;
- an increase of approximately $150,000 in distribution system expenses as a result of colder temperatures experienced in the first quarter of 2003 and the utilities' comprehensive system-wide flushing program undertaken in the second and third quarters of 2003 as well as increased labor costs;
- $800,000 of increased general and administrative costs primarily relating to costs for employee benefits, property and casualty insurance and administrative salaries;
- Recognition of approximately $244,000 in additional depreciation and amortization charges resulting from approximately $18.6 million of new capital investment over the past three years;
- an increase in local and state property taxes totaling $209,000 as a result of additional taxable assets placed in service within the utilities' franchise areas during the past year and a $115,000 tax abatement recorded in the third quarter of 2002 from the State of New Hampshire.

These increased costs are expected to be embedded in the utilities' future cost of providing water service. As such, our utilities will to continue to seek future rate relief to recover these increasing costs.

For calendar year 2003, 83%, 14% and 3% of the combined utilities' operating income was provided by Pennichuck, Pennichuck East and Pittsfield, respectively, which was comparable to 2002.

Real Estate Operations

For the year ended December 31, 2003, revenues from Southwood's real estate activities were $949,000 compared to $3,088,000 in 2002. In the table below, we show the major components of real estate revenues during 2003 and 2002.

	2003	2002
Land sales:		
Southwood Corporate Park	-	$2,427,000
Folsom Property	$257,000	-
HECOP IV	-	168,000
Westwood Park LLC	150,000	--
Other	125,000	179,000
	532,000	2,774,000
Income from unconsolidated equity investments	417,000	314,000
Total	$949,000	$3,088,000

As shown above, the decrease in our real estate revenues resulted principally from the sale of approximately 40 acres in Southwood Corporate Park in January 2002 to Winstanley Enterprises Inc. ("Winstanley") under the terms of a 1995 option agreement between Southwood and Winstanley.

In January 2003, Southwood sold a 67 acre parcel of unimproved land located in Merrimack, New Hampshire to the Folsom Development Corporation for approximately $1.5 million. Under the terms of that sale, Southwood received approximately $257,000 in cash and a long-term note receivable of $1.22 million. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pre-tax gain on that sale was approximately $1.48 million, of which $257,000, representing the net cash received at closing, is included in "Revenues-Real Estate Operations." The remaining gain of approximately $1.22 million, represented by the note receivable, has been deferred until payment of the note since the requirements established under Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate" for recognition of all of the profit from this sale have not yet been met.

At December 31, 2003 and 2002, the Company's wholly-owned real estate subsidiary, The Southwood Corporation, had a 50 percent ownership interest in four limited liability companies ("LLC's") as discussed in greater detail under "Liquidity and Financial Condition, Investments in Unconsolidated Subsidiaries" and also under Note 4 in the Notes to Consolidated Financial Statements. The remaining 50% ownership interest in each of the LLC's is held by John Stabile, a local developer, with whom Southwood has also participated in four residential joint ventures during the past 10 years. Southwood uses the equity method of accounting for its investments in these LLC's and accordingly, its investment is adjusted for its share of earnings or losses and for any distributions received from the LLC's. For the year ended December 31, 2003, Southwood's share of pre-tax earnings and distributions from these LLC's was approximately $417,000 and $67,500, respectively, compared to pre-tax earnings of $314,000 and distributions of $175,000 for calendar year 2002. The improvement in the LLC's pre-tax earnings resulted primarily from interest costs savings of $137,000 on the re-refinancing of their mortgages during 2002. Southwood's share of pre-tax earnings is included under "Revenues-real estate operations" in the accompanying Consolidated Statements of Income.

Southwood also has a 60% ownership in Westwood Park LLC ("Westwood"), a consolidated joint venture formed in 1997 to develop a tract of land in northwest Nashua. During 2003, Westwood received $150,000 representing escrowed funds from a land sale which occurred in 2000. The restrictions relating to these funds have expired and as a result, these funds have been recognized as revenue for 2003.

Expenses associated with our real estate operations were $104,000 and $1.75 million for the years ended December 31, 2003 and 2002, respectively. The principal reason for this significant decrease was the recognition of approximately $1.66 million of direct infrastructure costs associated with the Southwood Corporate Park land sale in 2002 discussed above. Southwood's 2003 operating expenses of approximately $104,000 consisted primarily of $9,000 of property taxes associated with its remaining landholdings and $65,000 for general and administrative costs.

Contract Operations

The following table provides a breakdown of revenues from our non-regulated, water-related contract operations for the years ended December 31, 2003 and 2002:

	2003	2002	Change
Municipal contracts	$1,191,000	$1,011,000	$180,000
Community system contracts	235,000	249,000	(14,000)
Watertight program	184,000	165,000	19,000
Miscellaneous	92,000	34,000	58,000
Total	$1,702,000	$1,459,000	$243,000

Of the $180,000 increase in contract revenue from municipal contracts, approximately $156,000 resulted from additional contract fees billed by the Service Corporation for unplanned work performed under those contracts. The combined base annual fees under those two municipal contracts represent approximately $765,000 and $741,000 for the years ended December 31, 2003 and 2002, respectively, with the balance of $426,000 and $270,000 representing fees earned for services performed in addition to the base scope of services for 2003 and 2002, respectively.

Contract revenues from community system contracts for 2003 were $235,000 representing 67 operating contracts at the end of 2003 compared to 52 such contracts at the end of 2002. The decline in community system contract revenues for the year resulted from lower fees from unplanned services which totaled $116,000 in 2003 and $140,000 in 2002. Under these types of contracts, the Company performs various water-related monitoring, maintenance, testing and compliance reporting services for water systems throughout southern and central New Hampshire. For 2003 and 2002, Service Corporation revenues included $184,000 and $165,000, respectively, for fees earned under its Watertight program. This program provides maintenance service to residential customers for a fixed annual fee. At the end of 2003, approximately 3,400 customers were enrolled in this program, representing a 27% increase over 2002.

Expenses associated with our contract operations were $1.52 million and $1.24 million for 2003 and 2002, respectively, comprised primarily of direct costs for servicing its various operating contracts and allocated intercompany charges for general and administrative support for contract operations. The increased expenses from 2002 to 2003 resulted principally from (i) additional direct expenses of $146,000 for servicing the operating contracts and (ii) an increase of $126,000 in allocated intercompany charges due to additional Company and Pennichuck resources utilized for the operation and development of the Service Corporation's various activities.

Merger and other expenses

Merger and other expenses for the years ended December 31, 2003 and 2002 were $1.11 million and $1.95 million, respectively. For 2003, those expenses were comprised of approximately (i) $235,000 for legal and other fees relating to the eminent domain proceeding discussed earlier, (ii) $231,000 relating to the terminated merger with PSC and (iii) $648,000 for legal and other fees as well as estimated settlement costs relating to the regulatory investigations. For 2002, those expenses related primarily to investment banking, legal and other fees associated with the terminated merger with PSC.

Interest Expense

For the year ended December 31, 2003, our consolidated interest expense was $1.97 million which was not a material change from 2002. Interest expense in both years primarily represents interest on long-term indebtedness of the Company and its three regulated water utilities as discussed in Note 3 to the Notes to Consolidated Financial Statements.

Results of Operations -- 2002 Compared to 2001

For the year ended December 31, 2002, the Company's consolidated net income was $2.34 million, compared to net income of $3.61 million in 2001, a decrease of 35%. On a per share basis, basic income per share was $.98 for the twelve months ended December 31, 2002, a $.54 per share decrease from the prior year. The decrease in consolidated net income was principally due to the transaction expenses incurred during 2002 relating to the proposed merger with PSC which was subsequently terminated in February 2003. Excluding the effect of those merger expenses, consolidated net income for 2002 was $3.53 million, or $1.48 per share.

Consolidated revenues in 2002 were $23.42 million, a 3% increase over 2001. As discussed below, increased revenues resulted primarily from the Company's regulated water and contract operations businesses offset by decreased revenues from land sales in 2002.

Water Utility Operations

On a combined basis, net income of our three utilities in calendar year 2002 was approximately $2.53 million, an increase of 30.7% from 2001 principally due to rate relief granted to Pennichuck in 2002 as discussed below.

Utility operating revenues for 2002 increased to $18.83 million, or 8%, from 2001. For 2002, approximately 82%, 16% and 2% of our total utility operating revenues were generated by Pennichuck, Pennichuck East and Pittsfield, respectively, which was not materially different than in 2001 as shown in the following table.

	2002	2001	Change
Pennichuck	$15,344,000	$14,102,000	$ 1,242,000
Pennichuck East	3,098,000	2,895,000	203,000
Pittsfield	388,000	415,000	(27,000)
Total	$18,830,000	$17,412,000	$1,418,000

The $1.24 million increase in Pennichuck's revenues from 2001 to 2002 is principally due to the positive effect of an 8.67% rate increase granted to Pennichuck in September 2001 and an additional 5.76% rate increase granted to Pennichuck in March 2002. The annualized effect of those two rate increases was estimated to be approximately $1.8 million. However, the positive effect of those rate increases in 2002 was partially offset by a 4.6% decline in billed consumption within the core system from 2001. Through the first nine months of 2002, rainfall in the region in which the utilities operate was 16.2% greater than in the same period of 2001, contributing to the overall decline in consumption for the year. In addition to the core system rate increases, water revenues reflect a 2.1% growth (approximately 600 customers) in the combined utilities' customer base from December 31, 2001 to December 31, 2002.

During 2002, there were no new rate filings made by the Company's three regulated water utilities.

Our utilities' operating expenses increased by $376,000, or 3%, to $12.8 million for the year ended December 31, 2002. The primary reasons for the increased utility operating costs from 2001 to 2002 were:

- $196,000 of additional depreciation expense reflecting new investment in plant assets during 2002 and 2001 totaling $5.12 and $6.02 million for each year, respectively, net of contributions in aid of construction;
- an increase of approximately $106,000 in property taxes payable to local towns and municipalities reflecting higher assessed values on utility property;
- a $128,000 increase in pension expense as a result of declining investment returns on pension plan assets and increased payroll costs;
- a $74,000, or 38%, increase in property and liability premiums paid, consistent with recent changes in the insurance market;
- offset by approximately $36,000 in lower power and purification expenses, as a result of the decrease in consumption discussed earlier, and $65,000 in additional capitalized overhead on new plant placed in service during 2002.

The utilities' combined operating income (operating revenues less operating expenses) for the year ended December 31, 2002, increased to $6.04 million, or 21%, over 2001, resulting in an operating margin of 32% in 2002, compared to an operating margin of 29% in 2001.

Real Estate Operations

For the year ended December 31, 2002, net income from real estate activities conducted by Southwood was $865,000 compared to $1.5 million in 2001. The following table summarizes revenues from major sales and other transactions that occurred in 2002 and 2001 which are discussed further in this section.

	2002	2001
Land sales:		
Southwood Corporate Park	$2,427,000	$422,000
HECOP IV	168,000	--
HECOP III	--	155,000
Westwood Park LLC (1)	--	2,000,000
Other	--	100,000
	2,595,000	2,677,000
Income from unconsolidated equity investments	314,000	1,313,000
Other	179,000	166,000
Total	$3,088,000	$4,156,000

(1) Included in revenues for 2001 is the 40% minority interest share, or approximately $800,000, relating to the sale of land by Westwood Park LLC.

For 2002, real estate revenues included the following:

- Net cash proceeds of $2.43 million from the sale of the remaining 40 acres in Southwood Corporate Park during the first quarter of 2002 to Winstanley, one of Southwood's existing joint venture partners discussed earlier;
- $314,000 in pre-tax earnings from Southwood's 50% ownership interest in HECOP I, II and III;
- $168,000 cash from the sale of a one-half interest in a 9.1 acre tract of land to John Stabile, a related party, for the creation of HECOP IV, LLC; and
- $91,000 of interest income earned on outstanding notes receivable due from Adella Realty Trust, also a local developer.

Revenues from real estate operations during 2001 consisted chiefly of the following:

- Proceeds of $2 million from the sale of land to the City of Nashua by Westwood Park LLC;
- $524,000 from Southwood's share of pretax profit from Heron Cove at Bowers Pond LLC, one of its residential joint ventures with John Stabile;
- $422,000 from the sale of two land parcels in Southwood Corporate Park;
- $155,000 cash from the sale of a one-half interest in a 4-acre tract of land for the creation of HECOP III, LLC to John Stabile, a related party, who also holds an ownership interest in HECOP I and II;
- $100,000 from the sale of a residential land parcel to Lansing Realty Trust, an affiliate of Adella Realty Trust; and
- $141,000 in pre-tax earnings from Southwood's 50% ownership in HECOP I, II and III.

Expenses associated with our real estate operations during 2002 increased by $838,000 to $1.75 million for the year ended December 31, 2002. Included in 2002 and 2001 real estate expenses was approximately $1.66 million and $396,000, respectively, of direct infrastructure costs associated with the Southwood Corporate Park land sales in those years. Excluding those infrastructure costs, Southwood's 2002 operating expenses were approximately $89,000 consisting primarily of property taxes and general and administrative costs. For 2001, real estate operating expenses were comprised of (i) $47,000 of bad debt expense relating to accrued interest on certain notes receivable, (ii) $108,000 of property taxes and property maintenance expenses associated with Southwood's remaining landholdings, and (iii) $273,000 for allocated intercompany charges.

Contract Operations

For the year ended December 31, 2002, net income from our contract operations was $127,000, an increase of $38,000, or 43% from 2001.

The following table provides a breakdown of contract operations revenues for 2002 and 2001:

	2002	2001	Change
Municipal contracts	$1,011,000	$666,000	$345,000
Community system contracts	249,000	188,000	61,000
Watertight program	165,000	74,000	91,000
Miscellaneous	34,000	30,000	4,000
Total	$1,459,000	$958,000	$501,000

More than half of the $501,000 increase in the contract revenue over 2001 resulted from additional contract fees of $331,000 billed by the Service Corporation under an operating contract with the Town of Salisbury, Massachusetts which began in October 2001. Under the terms of that contract, the Service Corporation operates and maintains that municipality's water system, including all meter reading and billing functions. During 2002, other revenues included (i) $165,000 earned under its Watertight program, which provides maintenance service to residential customers and (ii) contract revenues of approximately $249,000 from 52 operating contracts for non-transient, community water systems. At the end of 2001, the Service Corporation had 40 such operating contracts. Under these contracts, the Company performs various water-related monitoring, maintenance, testing and compliance reporting services for water systems throughout southern and central New Hampshire.

Expenses associated with our contract operations were $1,239,000 and $814,000 for 2002 and 2001, respectively, primarily comprised of direct costs for servicing its various operating contracts and allocated intercompany charges. The increased expenses from 2001 to 2002 resulted principally from (i) additional annualized direct expenses of $224,000 relating to the Town of Salisbury contract, (2) $36,000 in increased Watertight program related expenses, (3) an increase of $139,000 in allocated intercompany charges due to additional Company and Pennichuck resources utilized for the operation and development of the Service Corporation's various activities, and (4) $39,000 of amortization charges reflecting the write-off of certain start up and acquisition costs related to non-transient, community water systems.

Interest Expense

For the year ended December 31, 2002, our consolidated interest expense was $1.98 million which was not a material change from 2001. Interest expense in both years represents interest on long-term indebtedness of the Company and its three regulated water utilities as discussed in Note 3 to the Notes to Consolidated Financial Statements.

Liquidity and Financial Condition

During 2003, the primary sources of cash needed for the Company's day to day operating activities, capital projects, debt service and dividend payments were (i) available cash from the Company's short-term investments at the beginning of 2003, (ii) operating cash flow and (iii) borrowings under its revolving loan facility with its bank, Fleet Boston ("Fleet").

At December 31, 2003 and 2002, the Company's cash and cash equivalents, primarily short-term investments, totaled approximately $391,000 and $2.44 million, respectively. The $2.05 million decline in the Company's consolidated cash position, together with a $2 million increase in its short-term borrowings, were the result of several factors affecting the Company's liquidity during 2003 as discussed below.

- A combination of lower than normal water consumption and increased distribution maintenance costs adversely impacted the operating income of our regulated operating activities by approximately $1.9 million as discussed earlier under "Results of Operations -- 2003 Compared to 2002, Water Utility Operations."
- The Company incurred costs totaling approximately $1.11 million relating to the terminated merger with Philadelphia Suburban Corporation, the eminent domain efforts by the City and the regulatory investigations.
- Our water utility subsidiaries invested approximately $7.2 million in new and replacement property and plant during 2003, net of only $178,000 in contributions in aid of construction from local area developers and state and federal grants.

During 2003, the Company utilized its revolving loan credit facility (the "Loan Agreement") with Fleet for working capital and capital expenditure requirements. Under the Loan Agreement, the Company and its subsidiaries may borrow up to $2.5 million at interest rates tied to the bank's cost of funds or LIBOR, whichever is lower. At December 31, 2003, there was $2 million outstanding under the Loan Agreement at floating interest rates ranging from 2.43% to 2.47%. In March 2004, the Company received a commitment letter from Fleet to provide for $6.5 million in available short-term credit on the same terms contained in the original Loan Agreement. This increase in the line of credit is necessary in order to fund (i) its planned capital expenditures over the next two years, (ii) any future costs associated with the Company's defense against the City of Nashua's eminent domain taking, and (iii) any unanticipated shortfall in operating cash flow.

As disclosed in Note 3 of the Notes to Consolidated Financial Statements, the Company has certain debt instruments that contain annual sinking fund or other required principal payments. The Company believes that it will be able to refinance these debt instruments at their maturity through public issuance, or private placement, of debt or equity.

Our consolidated capital expenditures in 2003 totaled $7.2 million, net of contributions in aid of construction. Practically all of that amount was for projects relating to our water utility business. In 2003, the more significant projects included:

- $983,000 for replacing aging distribution mains in Nashua, New Hampshire;
- $896,000 for the repainting of a 4.5 million gallon steel tank in Pennichuck's core system;
- $484,000 for the initial design phase of planned treatment plant filter upgrades;
- $1.12 million for the construction of a 1 million gallon storage facility in Pennichuck East's Litchfield, New Hampshire franchise; and
- $1.19 million for the replacement and installation of new radio read meters which is part of an ongoing replacement program in Pennichuck's and Pennichuck East's service territories.

The remaining items in the Company's 2003 capital program reflect expenditures for ongoing, routine investment in additional pump stations, services, distribution mains and hydrants, vehicles and sundry system improvements. For 2004, we expect that our total expenditures for capital projects will be approximately $6.99 million, of which $362,000 is expected to be funded by contributions in aid of construction, state grants and low-interest, state revolving loans. Our cash needs for capital expenditures are expected to be met from a combination of internally-generated funds and short-term borrowings under the Company's available line of credit. Additionally, Pennichuck, the Company's largest regulated subsidiary, expects to file a Notice of Intent to File for Rate Relief with the NHPUC by late March or early April 2004 as discussed earlier.

The Company also expects that its cash flow in 2004 will be positively affected by the recovery of approximately $1.15 million of prior years' Federal tax payments resulting from the carryback of its 2003 net operating loss recognized for tax purposes. This net operating loss resulted principally from additional accelerated tax depreciation allowable under the Internal Revenue Code's recently enacted bonus depreciation rules. The expected recovery of these income taxes is shown under "Refundable income taxes" in the accompanying Consolidated Balance Sheet as of December 31, 2003.

Over the next five years, the Company expects to spend approximately $62.2 million for capital projects in its regulated water business. Of that amount, approximately $26 million relates to the planned filter upgrades in Pennichuck's core system water treatment plant. This project will be undertaken in order to meet stricter standards promulgated by the LT 1 and LT 2 Interim Enhanced Surface Water Treatment Rules issued by the United States Environmental Protection Agency ("USEPA") which require the elimination or inactivation of certain microbial organisms to improve disinfection and filtration. Our capital expenditures over the next five years are estimated to be $6.99 million in 2004, $21.2 million in 2005, $18.1 million in 2006, $10 million in 2007 and $5.9 million in 2008.

Pennichuck expects that its future capital investment program will continue to include significant expenditures for replacing aging distribution mains in Nashua and in certain smaller community water systems. In 1999, the City of Nashua began a public works program mandated by the USEPA requiring the City to separate its storm water runoff and sewer discharge systems over the next 10 years. Pennichuck has taken this opportunity to replace any aged or deteriorating water mains in those sections where the City is performing its sewer separation work. It is likely that Pennichuck will continue to spend $1 to $2 million annually on replacing its aging infrastructure within Nashua.

The Company's ability to finance its five year capital program will be dependent on, among other things, its future available operating cash flow, and its ability to competitively access both the debt and equity markets. The Company anticipates that these capital costs over the next five years will be recovered in the form of higher water rates. However, there can be no assurance that the NHPUC would approve a rate increase to cover all of such costs or the timeliness of such actions.

The following is a discussion of other major changes in the Company's consolidated financial position from December 31, 2002 to December 31, 2003:

- "Notes receivable" classified under Current Assets decreased by $605,000 reflecting the net payments received on a development and construction loan to Adella Realty Trust which were repaid in full in May 2003;
- "Refundable income taxes" increased $811,000 principally from the expected recovery of prior years' income taxes paid resulting from a tax net operating loss carryback discussed earlier;
- The net decrease in "Accrued pension liability" of $537,000 reflects the Company's change in its pension plan funding status from a $615,000 accrued liability balance at December 31, 2002 to a $78,000 accrued liability at the end of 2003 as discussed in greater detail below.

The "Long-term note receivable" balance of $1.22 million at December 31, 2003 represents a note received by Southwood from the sale of a 66.8 acre tract of land to Folsom Development Corporation in January 2003 as discussed earlier under "Results of Operations – 2003 compared to 2002, Real Estate Operations." Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $257,000 in cash and a long-term note receivable of $1,224,000. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property.

Investments in Unconsolidated Subsidiaries

At December 31, 2003 and 2002, the Company's wholly-owned real estate subsidiary, The Southwood Corporation, had a 50 percent ownership interest in four limited liability companies ("LLC's") as discussed in Note 4 in the Notes to Consolidated Financial Statements. The remaining 50% ownership interest in each of the LLC's is held by John Stabile, a local developer, with whom Southwood has also participated in four residential joint ventures during the past 10 years. The formation of these LLC's provides Southwood with an opportunity to develop its landholdings in such a manner as to provide for a long-term income stream through commercial rental activities. Additionally, the LLC's, as legal entities, mitigate the financial risk associated with sole ownership of developed commercial properties by Southwood. The LLC's, whose assets and liabilities are not included in the accompanying Consolidated Balance Sheets, own certain commercial office buildings on which there are outstanding mortgage notes totaling $9.2 million and $9.5 million as of December 31, 2003 and 2002, respectively. Southwood is contingently liable on one half of the outstanding mortgage balances and as such, it has issued a guarantee to the mortgagee for its share of the guaranteed indebtedness. The principal assets of the LLC's are the land, buildings and leasehold improvements, the total of which at December 31, 2003 and 2002 was $9.72 million and $9.40 million, respectively.

Contractual Obligations

The following table discloses aggregate information about our contractual obligations and the periods in which payments are due:

	Total	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years
Long-term debt	$29,211,229	$2,350,516	$10,234,889	$1,737,257	$14,888,567
Capital leases	36,450	17,841	18,609	-	-
Operating leases	148,843	47,446	77,767	23,630	-
Pension and post retirement contributions (1)	315,000	315,000	-	-	-
Purchase obligations (2)	-	-	-	-	-
Total	$29,711,522	$2,730,803	$10,331,265	$1,760,887	$14,888,567

(1) Pension and post retirement contributions cannot be reasonably estimated beyond 2004 and may be impacted by such factors as return on pension assets, changes in the number of plan participants and future salary increases.

(2) Pennichuck has a Wholesale Water Agreement (the "Agreement") with Manchester (NH) Water Works ("MWW") to purchase water from MWW through six metering points for various community water systems owned by Pennichuck and Pennichuck East. The Agreement, amended in February 2003, has a 25-year term and provides for an average daily flow to Pennichuck and Pennichuck East of up to 2.1 million gallons per day ("MGD") with a maximum daily flow rate of 3.5 MGD. Pennichuck and Pennichuck East purchase water at a rate established by MWW for all of its non-Manchester customers. The current rate, effective January 1, 2004 is $0.781 per one hundred cubic feet ("ccf") in areas where fire protection is not provided by MWW and $1.02 per ccf where fire protection is provided. The Agreement requires that Pennichuck and Pennichuck East pay a one-time source development charge ("SDC") of $1.14 for each gallon of the 2.1 million gallons of the average daily flow. To date, Pennichuck and Pennichuck East had achieved a combined peak average daily flow of 894,311 gallons. The SDC is re-calculated annually to reflect any increases in average daily flow and, if the flow is increased, Pennichuck and Pennichuck East pay the SDC for the incremental demand. Any incremental SDC is payable in January of each year. SDC payments began in 1989 and as of December 31, 2003, the total SDC paid to MWW was $1,050,100, which allows the Company to draw an average daily flow of up to 921,140. The incremental SDC paid in 2003 and 2002 was $30,585 and $88,320, respectively. There was no SDC due in January 2004 since the average daily flow in 2003 was less than the previous high average usage level established in 2002. Any future payments to MWW would be subject to an increase in average daily flow. No future obligations under this contract are disclosed since such future payments are based on future water consumption levels that are affected by weather conditions and customer growth.

In late March or early April 2004, Pennichuck expects to enter into a long-term lease arrangement with HECOP III, LLC for approximately 13,000 square feet of office space located in Merrimack, New Hampshire to serve as the Company's headquarters. Southwood holds a fifty percent (50%) ownership interest in HECOP III, LLC and the remaining ownership interests are held by John Stabile, who is also the holder of ownership interests in three other LLC joint ventures with Southwood as discussed above. The final execution of the lease is not expected to occur until the end of the first quarter of 2004.

Pension Plan

The Company maintains a defined benefit pension plan covering substantially all of its employees. The accounting for this plan under FASB 87, "*Employer's Accounting for Pensions,*" requires that the Company use key assumptions when computing the estimated annual pension expense. These assumptions are (i) the discount rate applied to the projected benefit obligation, (ii) the long-term rate of return on plan assets and (iii) the long-term rate of future increases in compensation. A lower discount rate increases the present value of our pension obligations and our annual pension expense. We have reduced our discount rate from 6.50% to 6.25% for 2003 reflecting the overall change in market conditions. Our expected long-term rate of return on pension plan assets is based on the plan's expected asset allocation, expected returns on various classes of plan assets as well as historical returns. We assumed that our long-term rate of return on pension plan assets was 8% in 2003 and 2002 and 9% in 2001. In addition, we assumed an increase in participant compensation levels of 3%, 4% and 5% in 2003, 2002 and 2001, respectively. These key assumptions are reviewed annually with our actuary and investment advisor and are updated to reflect the plan's experience. Actual results in any given year will often differ from our actuarial assumptions because of economic and other conditions which may impact the amount of pension expense the Company recognizes.

At December 31, 2002, the Company had a minimum pension liability of approximately $615,000, representing the excess of its pension liabilities over its plan assets. However, during 2003, the rate of return on plan investments was approximately 17.2% compared to a negative rate of return of 7.4% in 2002. As a result, the market value of the Company's plan assets was slightly lower than its accumulated benefit obligation by approximately $78,000 at December 31, 2003. The Company has recorded an adjustment of approximately $537,000 which resulted in a pension liability of approximately $78,000 at the end of 2003 and a credit, net of taxes, of approximately $349,000 to Other Comprehensive Income. Future adjustments to Other Comprehensive Income will be affected by changes in realized returns on pension plan assets, contributions to pension assets by the Company and changes in discount rates.

Critical Accounting Policies

The Company has identified the accounting policies below as those policies critical to its business operations and the understanding of the results of operations. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Changes in the estimates or other judgments included within these accounting policies could result in significant changes to the financial statements. Our critical accounting policies are as follows.

Regulatory Accounting - the use of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards No. 71 ("SFAS 71"), *"Accounting for the Effects of Certain Types of Regulation"* stipulates generally accepted accounting principles for companies whose rates are established by or are subject to approval by an independent third-party regulator. In accordance with

SFAS No. 71, we defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in rates charged to our water utilities' customers. In the event that the inclusion in the rate-making process is disallowed, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

Revenue Recognition - utility revenues are based on authorized rates approved by the NHPUC. Estimates of water utility revenues for water delivered to customers but not yet billed are accrued at the end of each accounting period. The Company reads its residential customer meters generally on a quarterly basis and records its revenue based on meter reading results. Unbilled revenues from the last meter-reading date to the end of the accounting period are estimated based on historical usage patterns and the effective water rates. The estimate of the unbilled revenue is a management estimate utilizing certain sets of assumptions and conditions. Actual results could differ from those estimates. Accrued unbilled revenues recorded in the accompanying consolidated balance sheets as of December 31, 2003 and 2002 were approximately $1,663,000 and $1,513,000, respectively.

The Company's non-utility revenues are recognized when services are rendered or when water is delivered. Revenues are based, for the most part, on long-term contractual rates.

Pension and Other Post Retirement Benefits - the Company's pension and other postretirement benefits costs are dependent upon several factors and assumptions, such as employee demographics, plan design, the level of cash contributions made to the plans, earnings on the plans' assets, the discount rate, the expected long-term rate of return on the plans' assets and health care cost trends.

In accordance with SFAS No. 87, "*Employers Accounting for Pensions*" ("SFAS 87") and SFAS No. 106, "*Employers Accounting for Postretirement Benefits Other than Pensions*" ("SFAS 106"), changes in pension and postretirement benefit obligations other than pensions ("PBOP") associated with these factors may not be immediately recognized as pension and PBOP costs in the statements of income, but generally are recognized in future years over the remaining average service period of the plans' participants.

As further described in Note 6 to the accompanying consolidated financial statements, the Company revised the discount rate in 2003 to 6.25% from 6.50% in 2002 to reflect market conditions. In determining pension obligation and cost amounts, this and other assumptions may change from period to period, and such changes could result in material changes to recorded pension and PBOP costs and funding requirements. Further, the Company's pension plan ("the Plan") assets, which partially consist of equity investments, were affected by significant declines in the financial markets from 2000 through 2002 despite positive investment performance during 2003. Fluctuations in market returns may result in increased or decreased pension costs in future periods. These conditions impacted the funded status of the Plan at both December 31, 2003 and 2002, and therefore, will also impact pension costs for 2004.

The Plan currently meets the minimum funding requirements of the Employee Retirement Income Security Act of 1974. While not required to make contributions to the Plan, the Company anticipates that it will contribute approximately $240,000 to the Plan in 2004. The Company believes it has adequate access to capital resources to support these contributions.

Dividend Reinvestment and Common Stock Purchase Plan

We offer a Dividend Reinvestment and Common Stock Purchase program that is available to our shareholders and residential utility customers residing in New Hampshire. Under this program, our shareholders may reinvest all or a portion of their common dividends into shares of common stock at prevailing market prices. We also accept optional cash payments to purchase additional shares at 100% of the prevailing market prices. This program has provided the Company with additional common equity of $253,000 and $47,000 in 2001 and 2002, respectively. No additional common equity was provided with respect to this program during 2003.

Environmental Matters

Our water utility subsidiaries are subject to the water quality regulations set forth by the USEPA and the New Hampshire Department of Environmental Services ("DES"). The USEPA is required to periodically set new maximum contaminant levels for certain chemicals as required by the federal Safe Drinking Water Act ("SDWA"). The quality of our treated water currently meets or exceeds all standards set by the USEPA and the DES. However, increased monitoring and reporting standards have led to additional operating costs for us. Any additional monitoring and testing costs arising from future USEPA and DES mandates should eventually be recovered through water rates in our utilities' future rate filings.

Pennichuck's filtration plant in Nashua is impacted by the Interim Enhanced Surface Water Treatment Rule ("IESWTR") which established a new turbidity standard of 0.3 NTU. Pennichuck has committed approximately $1.48 million in its 2004 capital budget for the design phase required for this project. As discussed earlier, Pennichuck estimates the total cost to comply with this new standard to be approximately $26 million over the next three years although such estimates are subject to any future changes in the IESWTR standards and changes in design and construction that may be required.

Two of Pennichuck's small community water systems have wells that produce water with arsenic levels in excess of the new standard of 10 ppb which is effective in February 2006. It will be necessary for Pennichuck to install arsenic treatment systems at these locations, however, the expenditures necessary to comply with this standard are not expected to be a material part of the Company's future capital expenditure program. Pennichuck's remaining community water systems have wells that produce water meeting the new arsenic standard.

Capital expenditures associated with federal and state water quality standards have historically been recognized and approved by the NHPUC for inclusion in our utilities' water rates.

New Accounting Standards

In May 2003, the FASB issued SFAS No. 150, *"Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"* ("SFAS 150"). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 applies specifically to a number of financial instruments that companies have historically presented with their financial statements either as equity or between the liabilities section and the equity section, rather than as liabilities. SFAS 150 became effective for financial instruments entered into or modified after May 31, 2003, and otherwise became effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material effect on the Company's combined financial statements.

In January 2003, the FASB issued Interpretation No. 46, *"Consolidation of Variable Interest Entities"*, as amended and revised in December 2003 ("FIN 46R"), which addresses the consolidation of variable interest entities ("VIE"s) by business enterprises that are the primary beneficiaries. A VIE is an entity that does not have sufficient equity investment at risk to permit it to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest. The primary beneficiary of a VIE is the enterprise with the majority of the risks or rewards associated with the VIE. Application of this Interpretation is required for all potential VIEs that are referred to as special-purpose entities for periods ending after December 15, 2003 and, for all other types of entities that are potential VIEs that are not referred to as special purpose entities, the consolidation requirements apply for periods ending after March 15, 2004. The Company has assessed the impact of FIN 46R and has determined that it does not have any VIEs for which the Company is the primary beneficiary requiring consolidation of the entity as of December 31, 2003. For all other types of entities, the Company is still assessing the impact that FIN 46R will have on its consolidated financial position.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information regarding market risk of the Company and its subsidiaries is presented in "Note 3– Debt" and "Note 5 – Fair Value of Financial Instruments" in the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K report.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Auditors

To the Shareholders and Board of Directors of Pennichuck Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows present fairly, in all material respects, the financial position of Pennichuck Corporation and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) on page 65, present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. The financial statements of Pennichuck Corporation for the year ended December 31, 2001 were audited by other independent auditors who have ceased operations. Those independent auditors expressed an unqualified opinion on those financial statements in their report dated February 15, 2002.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts

February 24, 2004

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	December 31, 2003	2002
ASSETS		
Property, Plant and Equipment		
Land	$1,196	$1,142
Buildings	21,016	19,073
Equipment	92,556	86,221
Construction work in progress	718	515
	115,486	106,951
Less accumulated depreciation	(29,759)	(27,279)
	85,727	79,672
Current Assets		
Cash and cash equivalents	391	2,444
Restricted cash	--	151
Accounts receivable, net of allowance of $37 in 2003 and $40 in 2002	1,332	1,339
Unbilled revenue	1,663	1,513
Notes receivable	--	605
Refundable income taxes	1,145	334
Materials and supplies, at cost	726	590
Prepaid expenses and other current assets	519	490
	5,776	7,466
Other Assets		
Deferred land costs	849	792
Deferred charges and other assets	3,087	2,846
Investment in real estate partnerships	547	206
Note receivable	1,224	---
	5,707	3,844
Total Assets	$97,210	$90,982

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

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS - CONTINUED
(In thousands, except share and per share data)

	December 31, 2003	2002
STOCKHOLDERS' EQUITY AND LIABILITIES		
Stockholders' Equity		
Common stock - $1 par value		
Authorized - 11,500,000 shares in 2003 and 2002		
Issued - 2,397,092 and 2,393,391 shares, respectively		
Outstanding – 2,396,140 and 2,391,439 shares, respectively	$2,397	$2,393
Additional paid in capital	15,208	15,170
Retained earnings	13,178	13,941
Accumulated other comprehensive income	(473)	(927)
	30,310	30,577
Less treasury stock, at cost; 952 and 1,952 shares at December 31, 2003 and 2002, respectively	(138)	(144)
	30,172	30,433
Minority interest	8	--
Preferred stock, no par value, 100,000 shares authorized, no shares issued in 2003 and 2002	--	--
Commitments and contingencies (Note 9)		
Long-term debt, less current portion	26,879	26,860
Current Liabilities		
Line of credit	2,000	--
Current portion of long-term debt	368	354
Accounts payable	913	673
Accrued interest payable	370	370
Other current liabilities	1,773	1,534
	5,424	2,931
Deferred Credits and Other Reserves		
Deferred income taxes	8,552	6,634
Deferred gain on land sale	1,224	--
Deferred investment tax credits	966	999
Regulatory liability	1,107	1,138
Post-retirement health benefit obligation	560	570
Accrued pension liability	78	615
Other liabilities	345	541
	12,832	10,497
Contributions in Aid of Construction	21,895	20,261
Total Stockholders' Equity and Liabilities	$97,210	$90,982

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,		
	2003	2002	2001
Revenues			
Water utility operations	$18,680	$18,830	$17,412
Real estate operations	949	3,088	4,156
Contract operations	1,702	1,459	958
Other	57	45	228
	21,388	23,422	22,754
Operating Expenses			
Water utility operations	14,567	12,785	12,409
Real estate operations	104	1,750	912
Contract operations	1,522	1,239	814
Other	-----	----	67
	16,193	15,774	14,202
Operating Income	5,195	7,648	8,552
Merger and other expenses	(1,114)	(1,946)	--
Other income	56	65	221
Interest expense	(1,969)	(1,978)	(1,981)
Income Before Provision for Income Taxes	2,168	3,789	6,792
Provision for Income Taxes	888	1,450	2,657
Net Income Before Minority Interest	1,280	2,339	4,135
Minority Interest in Loss (Earnings) of Westwood Park LLC, net of tax	(33)	2	(523)
Net Income	$1,247	$2,341	$3,612
Earnings Per Common Share:			
Basic	$.52	$.98	$ 1.52
Diluted	$.52	$.97	$ 1.50
Weighted Average Shares Outstanding:			
Basic	2,392,919	2,390,942	2,382,389
Diluted	2,398,198	2,411,781	2,400,088

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

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Common Stock - Shares	Common Stock-Amount	Additional Paid - in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balances at December 31, 2000	2,358,847	$ 2,359	$ 14,667	$ 11,753	$ (184)	$ -----	$ 28,595
Net income				3,612			3,612
Dividend reinvestment plan			111		142*		253
Common dividends declared - $.76 per share				(1,813)			(1,813)
Exercise of stock options	8,468	8	103	(2)	(86)		23
Other comprehensive income						(308)	(308)
Directors' fees and other deferred compensation plan	21,704	22	217	(6)			233
Balances at December 31, 2001	2,389,019	2,389	15,098	13,544	(128)	(308)	30,595
Net income				2,341			2,341
Dividend reinvestment plan	1,789	2	45				47
Common dividends declared - $.813 per share				(1,944)			(1,944)
Exercise of stock options	2,583	2	27		(16)		13
Other comprehensive income						(619)	(619)
Balances at December 31, 2002	2,393,391	2,393	15,170	13,941	(144)	(927)	30,433
Net income				1,247			1,247
Common dividends declared - $.84 per share				(2,010)			(2,010)
Exercise of stock options	3,701	4	38		6		48
Other comprehensive income						454	454
Balances at December 31, 2003	2,397,092	$ 2,397	$ 15,208	$ 13,178	$ (138)	$ (473)	$ 30,172

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, 2003	2002	2001
Net income	$ 1,247	$ 2,341	$ 3,612
Other comprehensive income:			
Additional minimum pension liability adjustment	581	(1,020)	-----
Unrealized loss on derivatives	(84)	(476)	(396)
Reclassification of net losses realized in net income	257	244	88
Income tax (expense) benefit relating to other comprehensive loss	(300)	633	-------
	454	(619)	(308)
Comprehensive Income	$1,701	$ 1,722	$ 3,304

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,		
	2003	2002	2001
Operating Activities:			
Net income	$1,247	$2,341	$3,612
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,914	2,775	3,047
Gain on sale of land	(257)	(765)	--
Amortization of deferred investment tax credits	(33)	(33)	(33)
Provision for deferred income taxes	1,918	863	930
Changes in assets and liabilities:			
Accounts receivable and unbilled revenue	(142)	(258)	(1)
Refundable income taxes	(811)	(209)	245
Materials and supplies	(137)	(225)	(11)
Prepaid expenses	(29)	(10)	(79)
Deferred charges and other assets	(572)	(139)	(1,364)
Accounts payable and accrued expenses	487	(631)	897
Other	(320)	291	29
Net cash provided by operating activities	4,265	4,000	7,272
Investing Activities:			
Purchases of property, plant & equipment	(7,181)	(5,274)	(6,134)
Contributions in aid of construction	178	157	116
Decrease in restricted cash	151	--	852
Proceeds from sale of land	257	2,426	--
Net change in investment in real estate partnerships and deferred land costs	(399)	(269)	764
Net cash used in investing activities	(6,994)	(2,960)	(4,402)
Financing Activities:			
Payments on long-term debt	(365)	(351)	(319)
Proceeds from long-term borrowings	2,399	145	502
Net decrease (increase) in notes receivable	605	221	(826)
Minority interest	----	--	(1,149)
Proceeds from dividend reinvestment plan and other, net	47	61	275
Dividends paid	(2,010)	(1,944)	(1,813)
Net cash provided by (used in) financing activities	676	(1,868)	(3,330)
Decrease in cash	(2,053)	(828)	(460)
Cash at beginning of year	2,444	3,272	3,732
Cash at end of year	$ 391	$2,444	$3,272

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

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Significant Accounting Policies

Pennichuck Corporation (the "Company") is an investor-owned holding company located in Nashua, New Hampshire with three wholly-owned operating subsidiaries, Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. ("Pittsfield"), involved in regulated water supply and distribution in Nashua and towns throughout southern and central New Hampshire; non-regulated, water-related services conducted through Pennichuck Water Service Corporation (the "Service Corporation"); and real estate management and development activities conducted through The Southwood Corporation ("Southwood").

Pennichuck, Pennichuck East and Pittsfield (collectively referred to as the "Company's utility subsidiaries") are engaged principally in the gathering and distribution of potable water to approximately 29,400 customers in southern and central New Hampshire. The Company's utility subsidiaries, which are regulated by the New Hampshire Public Utilities Commission (the "NHPUC"), are subject to the provisions of Statement of Financial Accounting Standards No. ("SFAS") 71, "*Accounting for the Effects of Certain Types of Regulations*." The Service Corporation is involved in providing non-regulated, water-related services to over 8,300 customers while Southwood owns, manages and develops real estate.

(a) Principles of Consolidation

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

(b) Investment in Joint Ventures

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 "Revenues-real estate operations" 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 4, "Equity Investments in Unconsolidated Companies" for further discussion of its equity investments.

(c) 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.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash in banks, demand deposits and investments in short-term money market funds with initial maturities, when purchased, of three months or less.

(e) Restricted Cash

Restricted cash consisted primarily of funds escrowed by one of Southwood's joint ventures for the payment of certain traffic improvements relating to an industrial park. The restrictions relating to these funds expired in 2003.

(f) Inventory

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

(g) Property, Plant and Equipment

Property, plant and equipment, which includes principally the water utility assets of the Company's utility subsidiaries, is recorded at cost plus an allowance for funds used during construction on major, long-term projects. The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets including property funded with contributions in aid of construction. The useful lives range from 5 to 84 years and the average composite depreciation rate was 2.67% in 2003, 2.69% in 2002 and 2.67% in 2001. Depreciation expense in 2003, 2002 and 2001 was $2,937,358, $2,730,486 and $2,489,910, respectively. The components of Property, Plant and Equipment at December 31, 2003 and 2002 are as follows:

	2003	2002	Useful Lives
	($000's)		
Utility Property:			
Land	$ 1,125	$ 1,083	-
Source of supply	20,579	18,659	34 - 75
Pumping & purification	9,183	9,060	15 - 35
Transmission & distribution	57,692	53,750	40 - 84
General, including services, meters, hydrants and other equipment	24,907	22,610	7 - 75
Construction work in progress	718	515	
Total Utility Property	114,204	105,677	
Non-utility Property	1,282	1,274	5 - 40
Total Property, Plant & Equipment	$ 115,486	$ 106,951	

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

(h) Treasury Stock

Treasury stock held by the Company represents shares tendered by employees as payment for existing outstanding options. Treasury stock received is recorded at its fair market value when tendered. Any such treasury stock held by the Company is not retired but instead is held until its ultimate disposition has been decided.

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

AFUDC represents a non-cash credit to income with a corresponding charge to plant in service. AFUDC amounts reflect the cost of borrowed funds and, if applicable, equity capital when used to fund major plant construction projects. During 2003, total AFUDC credited to income was approximately $4,300. There were no AFUDC amounts credited to income during 2002 and 2001.

(j) 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 the 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.

(k) Deferred Charges and Other Assets

Deferred charges include certain regulatory assets and costs of obtaining debt financing. Regulatory assets are amortized over periods being recovered through authorized rates. Deferred financing costs are amortized over the term of the related bonds and notes. Such 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, these regulatory assets are being amortized over periods ranging from 3 to 25 years. Deferred charges and other assets consist of the following:

	2003	2002
	($000's)	
Regulatory assets:		
Source development charges	$ 669	$ 627
Miscellaneous studies	742	701
Company-owned life insurance	253	225
Sarbanes-Oxley costs	140	-
Other	55	44
	1,859	1,597
Financing costs	501	542
Franchise fees and other	444	406
Filtration grant receivable	283	301
Total	$ 3,087	$ 2,846

Sarbanes-Oxley costs totaling approximately $140,000 represent costs incurred during 2003 relating to the implementation and compliance with Section 404 of the Sarbanes-Oxley Act of 2002. The Company has received approval from the NHPUC related to the future recoverability of such costs.

(l) Deferred Land Costs

Included in deferred land costs is Southwood's original basis in its landholdings and any land improvements which are stated at the lower of cost or market.

(m) Notes Receivable

In January 2003, Southwood sold a tract of land to an unaffiliated regional developer for approximately $1.5 million. Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $257,000 in cash and a long-term note receivable of $1,223,990. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.48 million, of which $257,000, representing the net cash received at closing, is included in "Revenues-Real estate operations." The remaining gain of $1,223,990, represented by the note receivable, has been deferred until payment of the note since the requirements established under Statement of Financial Accounting Standards No. 66, *"Accounting for Sales of Real Estate,"* for recognition of all of the profit from this sale have not yet been met.

Included in current assets at December 31, 2002 were two notes receivable from a local developer totaling $604,500 representing funds loaned by Southwood to the developer for land acquisition and construction of 3 residential homes. The notes, which provided for an annual interest rate of 10.5% and were secured by a first mortgage interest in the land and buildings, were repaid in full in May 2003.

(n) Income Taxes

Income taxes are recorded in accordance with SFAS No. 109, *"Accounting for Income Taxes"* using the accrual method and the provision for federal and state income taxes is based on income reported in the 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 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) Contributions in Aid of Construction ("CIAC")

Under construction contracts with real estate developers and others, the Company's regulated subsidiaries receive non-refundable advances for the costs of new main installation. The regulated subsidiaries also credit 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 and related plant asset are amortized over the life of the property.

(p) Reclassifications

Certain amounts in 2002 have been reclassified to conform with the 2003 financial statement presentation.

(q) Earnings Per Share

The Company computes earnings per share following the provisions of SFAS No. 128, *"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, 2003, 2002 and 2001, dilutive potential common shares consisted of outstanding 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 shares are as follows:

	2003	2002	2001
	(In thousands, except share and per share data)		
Basic earnings per share	$ 0.52	$ 0.98	$ 1.52
Dilutive effect of unexercised stock options	-	(0.01)	(0.02)
Diluted earnings per share	$ 0.52	$ 0.97	$ 1.50
Numerator:			
Basic net income	$ 1,247	$ 2,341	$ 3,612
Diluted net income	$ 1,247	$ 2,341	$ 3,612
Denominator:			
Basic weighted average shares outstanding	2,392,919	2,390,942	2,382,389
Dilutive effect of unexercised stock options	5,279	20,839	17,699
Diluted weighted average shares outstanding	2,398,198	2,411,781	2,400,088

(r) Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148, *"Accounting for Stock-Based Compensation- Transition and Disclosure- an amendment to FASB Statement No. 123"* ("SFAS 148") which provides for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires prominent disclosures in both interim and annual financial statements about the method of accounting for stock-based employee compensation. At this time, the Company does not intend to change to the fair value based method of accounting for stock-based compensation. On a pro forma basis, the Company's net income and earnings per share would have been reduced to the following amounts had compensation cost for the plan been determined consistent with SFAS No. 123, *"Accounting for Stock-Based Compensation"*.

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	2003	2002	2001
	(In thousands, except share and per share data)		
Net income:			
As reported	$ 1,247	$ 2,341	$ 3,612
Less:			
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related taxes	(181)	(145)	(143)
Pro forma net income	$ 1,066	$ 2,196	$ 3,469
Basic net income per share:			
As reported	$ 0.52	$ 0.98	$ 1.52
Pro forma	$ 0.45	$ 0.92	$ 1.46
Diluted net income per share:			
As reported	$ 0.52	$ 0.97	$ 1.50
Pro forma	$ 0.44	$ 0.91	$ 1.45

Note 2 – Income Taxes

The components of the federal and state income tax provision at December 31 are as follows:

	2003	2002	2001
		($000's)	
Federal	$728	$1,180	$2,113
State	193	303	577
Amortization of investment tax credits	(33)	(33)	(33)
	$888	$1,450	$2,657
Currently payable/(receivable)	$(769)	$436	$1,836
Deferred	1,657	1,014	821
	$888	$1,450	$2,657

The following is a reconciliation between the statutory federal income tax rate and the effective income tax rate for 2003, 2002 and 2001:

	2003	2002	2001
Statutory federal rate	34.0%	34.0%	34.0%
State tax rate, net of federal benefit	5.6	5.6	5.6
Permanent differences	7.0	----	----
Amortization of investment tax credits	(1.5)	(.9)	(.5)
Effective tax rate	45.1%	38.7%	39.1%

At December 31, 2003, the Company had approximately $93,000 of alternative minimum tax credits resulting from a net operating loss in 2003. The net operating loss credits will be carried back into 2001 and 2002. The Company did not have any alternative minimum tax credits available at December 31, 2002 and 2001.

The Company has a regulatory liability related to income taxes of $1,107,109 and $1,138,090 at December 31, 2003 and 2002, 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. The liability is being amortized over an average remaining life of 30 years consistent with the Company's rate-making treatment.

The temporary items that give rise to the net deferred tax liability at December 31, 2003 and 2002 are as follows:

	2003	2002
	($000's)	
Liabilities:		
Property related	$10,977	$9,264
Other	625	706
	11,602	9,970
Assets:		
Investment tax credits and other	1,107	1,138
Taxes on contributions in aid of construction	461	580
Alternative minimum tax carry-back	93	----
Deferred gain on land sale	485	----
Merger-related and other	1,204	1,918
	3,350	3,636
Valuation allowance	(300)	(300)
Net deferred tax liabilities	$8,552	$6,634

The Company has recorded a valuation allowance of approximately $300,000 relating to contribution deductions expected to be taken within the next four years (the statutory carry forward period for federal tax purposes). However, there is no assurance that future taxable income will be sufficient to realize such tax benefits given current Internal Revenue Code limitations. Furthermore, in the event that the Internal Revenue Service examines any of the years affected by this carry forward, the Company's ability to utilize such deductions could be altered as well. When the Company is able to determine that it is probable these benefits will be realized in full or in part, the related valuation allowance will be reduced accordingly.

Note 3 - Debt

Long-term debt at December 31 consists of the following:

	2003	2002
	($000's)	
Unsecured notes payable to various insurance companies:		
9.10% due April 1, 2005	$ 3,500	$ 3,500
7.40% due March 1, 2021	8,000	8,000
Unsecured Industrial Development Authority Revenue Bond 1988 series 7.50%, due July 1, 2018	975	1,040
Unsecured Business Finance Authority 1994 Revenue Bond (series A), 6.35% due December 1, 2019	2,480	2,615
Unsecured Business Finance Authority 1994 Revenue Bond (series B), 6.45% due December 1, 2016	1,320	1,435
Unsecured Business Finance Authority 1997 Revenue Bond, 6.30%, due May 1, 2022	4,000	4,000
Secured notes payable to bank, floating rate, due April 8, 2005	6,000	6,000
Unsecured New Hampshire State Revolving Fund		
Loan, 3.80%, due May 1, 2022	404	429
Loan, 2.315%, due April 1, 2013	133	145
Loan, 3.976%, due January 1, 2025	399	-
Secured loan, 5.00%, due October 1, 2005	36	50
	27,247	27,214
Less current portion	368	354
	$ 26,879	$ 26,860

The 1994 Series A and B Bonds are not subject to optional redemption until 2004 at which time they may be redeemed in whole or in part at the Company's option at a premium not to exceed 2% and may be redeemed at par on or after December 1, 2008. The notes and bonds payable require periodic interest payments (either monthly or semi-annually) which are based on the outstanding principal balances. The aggregate principal payment requirements subsequent to December 31, 2003 are as follows:

	Amount ($000's)
2004	$ 368
2005	9,886
2006	367
2007	768
2008	969
2009 and thereafter	14,889
	$ 27,247

The note and bond agreements require, among other things, the maintenance of certain financial ratios and restrict the payment or declaration of dividends by Pennichuck. Under Pennichuck's most restrictive covenant, cumulative common dividend payments or declarations by Pennichuck subsequent to December 31, 1989 are limited to cumulative net income earned after that date plus $1,000,000. At December 31, 2003, approximately $4.4 million of Pennichuck's retained earnings were unrestricted for payment or declaration of common dividends. In addition, substantially all of the assets owned by Pennichuck East, totaling approximately $16.6 million and $13.8 million at December 31, 2003 and 2002, respectively, are secured as collateral under a certain $4.5 million note with a local bank dated April 8, 1998.

The Company has available a $2.5 million unsecured, revolving credit facility with a bank. Borrowings under the revolving credit facility bear interest at a variable rate equal to the lesser of the bank's cost of funds or the LIBOR rate plus 125 basis points. The revolving credit facility is subject to renewal and extension by the bank annually on June 30 of each year. At December 31, 2003, the Company had outstanding borrowings under the revolving credit facility totaling $2.0 million. At December 31, 2002, there were no outstanding borrowings under this facility.

The Company has two interest rate financial instruments which qualify as derivatives under Statement of Financial Accounting Standards No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* ("SFAS 133"). These financial derivatives have been designated as cash flow hedges under the provisions of SFAS No. 133. The financial instruments are used to mitigate interest rate risks associated with the Company's $6 million floating-rate loans. The floating rates, which are based on LIBOR plus 65 basis points, were 1.82% and 2.08%, at the end of 2003 and 2002, respectively. The agreements provide for the exchange of fixed rate interest payment obligations for floating rate interest payment obligations on notional amounts of principal. The two derivative agreements have a fixed rate of 6.50%. The notional amount of the debt for which interest rate exchanges have been entered into under these agreements is $6,000,000 at December 31, 2003 and 2002. The fair value of the financial derivatives, included in the Company's consolidated balance sheet as "Other liabilities", was approximately $345,000 and $541,000 at December 31, 2003 and 2002, respectively. Changes in the fair values of those derivatives are deferred in accumulated other comprehensive income.

Note 4 - Equity Investments in Unconsolidated Companies

At December 31, 2003 and 2002, Southwood had a 50 percent ownership interest in four limited liability companies ("LLCs"). The remaining 50 percent ownership interest in each of the LLCs is held by John Stabile, principal owner of H.J. Stabile & Son, Inc. ("Property Manager").The LLCs, whose assets and liabilities are not included in the accompanying consolidated balance sheets, own certain commercial office buildings on which there are outstanding mortgage notes totaling approximately $9.2 million and $9.5 million at December 31, 2003 and 2002, respectively. Southwood is contingently liable for one half of the outstanding mortgage balances and as such, it has issued a guarantee to the mortgagee for its share of the guaranteed indebtedness.

Southwood uses the equity method of accounting for its investments in the four LLCs and accordingly, its investment is adjusted for its share of earnings or losses and for any distributions or dividends received from the LLCs. For the years ended December 31, 2003, 2002 and 2001, Southwood's share of earnings in the LLCs was approximately $417,000, $314,000, and $141,000, respectively. Southwood's share of earnings and losses are included under revenues-real estate operations in the accompanying consolidated statements of income. For the years ended December 31, 2003, 2002 and 2001, cash distributions received from the LLCs were approximately $68,000, $175,000 and $200,000, respectively. The principal assets of the LLCs are the land, buildings and leasehold improvements, the total of which at December 31, 2003 and 2002 was approximately $9.7 million and $9.4 million, respectively.

In accordance with the terms of the LLCs' operating agreements, the Property Manager charges the LLCs a management fee to offset its real estate management costs. The management fee is calculated as a percentage of the LLCs' monthly rent. For the years ended December 31, 2003, 2002 and 2001, total management fees charged to the LLCs were approximately $73,000, $90,000 and $82,000, respectively. The Property Manager also leases approximately 14,000 square feet of office and garage space in one of the LLCs for which it made annual lease payments of approximately $202,000 in 2001, 2002 and 2003.

Note 5 - Fair Value of Financial Instruments

The fair value of certain financial instruments included in the accompanying consolidated balance sheet as of December 31, 2003 is as follows:

	Carrying Value		Fair Value
		($000's)	
Long-term debt	$27,247		$30,985
Interest rate swaps	$(345)		$(345)

There are no quoted market prices for the Company's various long-term debt issues and thus, their fair values have been determined based on quoted market prices for securities similar in nature and in remaining maturities. 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 the Company's interest rate swaps represents the estimated cost to terminate these agreements as of December 31, 2003 based upon current interest rates.

The carrying values of the Company's cash, restricted cash, and short-term notes receivable approximate their fair values because of the short maturity dates of those financial instruments.

Note 6 - Benefit Plans

Pension Plan

The Company has a non-contributory, defined benefit pension plan (the "Plan") covering substantially all full-time employees. The benefits are formula-based, giving consideration to both past and future service as well as participant compensation levels. The Company's funding policy is to contribute annually up to the maximum amount deductible for federal tax purposes. 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. The Plan uses December 31 for the measurement date to determine its projected benefit obligation and fair value of plan assets. The Plan uses January 1 as the measurement date to determine net periodic benefit costs. The changes in benefit obligation and plan assets were as follows:

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	December 31, 2003	December 31, 2002
	($000's)	
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 4,555	$ 3,651
Service cost	201	216
Interest cost	270	271
Actuarial (gain)/loss	(147)	497
Benefits paid, excluding expenses	(117)	(80)
Benefit obligation, end of year	$ 4,762	$ 4,555
Change in plan assets:		
Fair value of plan assets, beginning of year	$ 3,156	$ 3,234
Actual return (loss) on plan assets, net	537	(171)
Expenses	(11)	(25)
Employer contribution	222	198
Benefits paid, excluding expenses	(117)	(80)
Fair value of plan assets, end of year	$ 3,787	$ 3,156
The plan's funded status was as follows:		
Funded status	$ (975)	$ (1,398)
Unrecognized net actuarial loss	1,378	1,859
Unrecognized transition asset	(42)	(56)
Unrecognized prior service cost	3	4
Net amount recognized	$ 364	$ 409
Amounts recognized in the consolidated balance sheets consisted of:		
Accrued retirement liability	$ (78)	$ (615)
Accumulated other comprehensive income	439	1,020
Intangible asset	3	4
Net amount recognized	$ 364	$ 409

Weighted average assumptions used to value benefit obligations were as follows:	2003	2002
Discount rate at the end of the year	6.25%	6.50%
Rate of compensation increase at the end of the year	3.00%	4.00%

Components of net periodic benefit cost were as follows:	2003	2002	2001
		($000's)	
Service cost	$ 201	$ 216	$ 206
Interest cost	270	271	243
Expected return on plan assets	(252)	(296)	(300)
Amortization of prior service cost	1	1	1
Amortization of transition asset	(14)	(14)	(14)
Recognized net actuarial loss	60	30	6
Net periodic benefit cost	$ 266	$ 208	$ 142

Weighted average assumptions used to calculate net periodic benefit cost were as follows:			
Discount rate at the beginning of the year	6.50%	7.50%	7.50%
Expected return on plan assets for the year (net of investment expenses)	8.00%	9.00%	9.00%
Rate of compensation increase at the beginning of the year	4.00%	5.00%	5.00%

Our expected long-term rate of return on pension plan assets is based on the Plan's expected asset allocation, expected returns on various classes of Plan assets as well as historical returns.

The projected benefit obligation, the accumulated benefit obligation and the fair value of plan assets for the pension plan were $4,761,896, $3,864,799 and $3,786,666, respectively, as of December 31, 2003 and $4,554,533, $3,771,130 and $3,156,461, respectively, as of December 31, 2002. Since the market value of the Company's Plan assets was lower than the Plan's accumulated benefit obligation, the Company recorded a minimum pension liability of approximately $78,000 and $615,000 at December 31, 2003 and 2002, respectively. This resulted in a decrease in the additional minimum liability for the Plan of approximately $581,000 in 2003.

In establishing its investment policy, the Company has considered the fact that the pension 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 prudently invested. Accordingly, the Company does not consider it necessary to adopt overly aggressive investment approaches that may expose the pension assets to severe depreciation in asset values during adverse markets. The investment policy should provide a high probability of generating a rate of return equal to at least 4% in excess of inflation over a long-term time horizon. The Company's investment strategy applies to its post retirement plans as well as its pension plan.

The pension plan's investment strategy utilizes several different asset classes with varying risk/return characteristics. The following indicates the asset allocation percentage of the fair value of the plan assets as of December 31 as well as the pension plan's targeted allocation range:

	2003	2002	Asset Allocation Range
Equities	47%	50%	30% – 55%
Fixed income	53%	50%	45% – 90%
Other	------	------	0% – 5%
Total	100%	100%	

While not required to make contributions to the Plan, the Company anticipates that it will contribute approximately $240,000 to the Plan in 2004.

Defined Contribution Plan

In addition, the Company has a defined contribution plan covering substantially all full-time employees. Under this plan, the Company matches 100% of the first 3% of the employee's salary contributed to the plan. The matching employer's contributions, recorded as operating expenses, were $114,579, $115,210 and $109,325 for 2003, 2002 and 2001, respectively.

Other Post-retirement Benefits

The Company provides post-retirement medical benefits to current and retired employees through separate post-retirement medical plans for its union and non-union employees. Future benefits, payable to current employees upon reaching normal retirement date, are calculated based on the actual percentage of wage and salary increases earned from the plan inception date to normal retirement date. The post retirement plans use December 31 for the measurement date to determine their projected benefit obligation and fair value of plan assets. These plans use January 1 as the measurement date to determine net periodic benefit cost except that the post employment plan, which was initiated during 2003, used October 1 as such measurement date. The changes in benefit obligation and plan assets were as follows:

	December 31, 2003	December 31, 2002
	($000's)	
Change in benefit obligation:		
Benefit obligation, beginning of the year	$ 992	$ 808
Service cost	59	33
Interest cost	69	59
Actuarial loss	173	124
Benefits paid, excluding expenses	-	(32)
Benefit obligation, end of year	$ 1,293	$ 992

	December 31, 2003	December 31, 2002
	($000's)	
Change in plan assets:		
Fair value of plan assets, beginning of the year	$ 184	$ 204
Actual return (loss) on plan assets, net	31	(20)
Employer contribution	156	32
Benefits paid, excluding expenses	-	(32)
Fair value of plan assets, end of year	$ 371	$ 184
The plan's funded status was as follows:		
Funded status	$ (922)	$ (808)
Unrecognized net actuarial loss	327	171
Unrecognized transition (asset)/obligation	-	-
Unrecognized prior service cost	52	67
Net amount recognized	$ (543)	$ (570)
Weighted average assumptions used to value benefit obligations were as follows:		
Discount rate at the end of the year	6.00%	6.50%
Rate of compensation increase at the end of the year	3.00%	4.00%

	2003	2002	2001
Components of net periodic benefit cost were as follows:		($000's)	
Service cost	$ 59	$ 33	$ 30
Interest cost	69	59	55
Expected return on plan assets	(22)	(15)	(12)
Amortization of prior service cost	15	15	15
Amortization of transition obligation	-	30	31
Recognized net actuarial loss	8	-	-
Net periodic benefit cost	$ 129	$ 122	$ 119
Weighted average assumptions used to calculate net periodic benefit cost were as follows:			
Discount rate at the beginning of the year	6.50%	7.50%	7.75%
Expected return on plan assets for the year (net of investment expenses)	8.00%	9.00%	9.00%
Rate of compensation increase at the beginning of the year	4.00%	5.00%	5.00%

A one percent change in the assumed health care cost trend rate would not have had a material effect on the post-retirement benefit cost or the accumulated post-retirement benefit obligation in 2003.

The following indicates the asset allocation percentages of the fair value of total Plan assets for each major type of post-retirement plan assets as of December 31 as well as targeted percentages and the permissible range:

	2003	2002	Asset Allocation Range
Equities	54%	44%	30% – 55%
Fixed income	42%	53%	45% – 90%
Other	4%	3%	0% - 5%
Total	100%	100%	

The assets of the Company's PBOP Plan are held in VEBA trusts.

In 2003, the Company began offering post-employment medical benefits for employees who retire prior to their normal retirement age and who have met certain age and service requirements. The benefits, which are offered through a separate plan, allow continuity of coverage at group rates from the employee's retirement date until the employee becomes eligible for Medicare. The plan became effective October 1, 2003. If the employee elects to remain on the Company's group medical plan, the employee will be responsible for reimbursing the Company for the full monthly premium. Upon request, the spouse of the employee may remain on the Company's group medical plan as long as the full monthly premium is reimbursed to the Company. The post-employment plan is funded from the general assets of the Company. The changes in benefit obligation and plan assets were as follows:

	($000's)
Change in benefit obligation:	
Benefit obligation at October 1, 2003	$ 359
Service cost	5
Interest cost	5
Actuarial gain	(18)
Benefits paid, excluding expenses	-
Benefit obligation, end of year	$ 351
The plan's funded status was as follows:	
Funded status at December 31, 2003	$ (351)
Unrecognized net actuarial gain	(18)
Unrecognized prior service cost	353
Net amount recognized	$ (16)

Weighted average assumptions used to value benefit obligations were as follows:	
Discount rate at the end of the year	6.00%
Health care cost trend rate at the end of the year	9.00%

Components of net periodic benefit cost were as follows:	($000's)
Service cost	$ 5
Interest cost	5
Amortization of prior service cost	6
Net periodic benefit cost	$ 16

Weighted average assumptions used to calculate net periodic benefit cost were as follows:	
Discount rate at the beginning of the year	6.00%
Expected return on plan assets for the year (net of investment expenses)	8.00%
Health care cost trend rate at the beginning of the year	9.00%

In December 2003, the FASB issued Staff Position (FSP) 106-1, *"Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"* (the "Act"). The Act provides for drug benefits for retirees over the age of 65 under a new Medicare Part D program. For employers like the Company, who currently provide retiree medical programs for former employees over the age of 65, there are subsidies available which are inherent in the Act. The Act entitles these employers to a direct tax-exempt federal subsidy. However, since the effective date of the Act was December 2003 and because most employers have not had time to consider the accounting considerations and that there is no appropriate accounting guidance for the federal subsidy, the FASB issued this FSP to allow employers a one-time election to defer recognition of the impact of the Act in the employer's accounting until formal guidance is issued. The Company has elected to defer recognition of the provisions of this Act until further accounting guidance is issued. As a result, the provisions of the Act are not reflected in the following disclosure. The issuance of formal accounting guidance may require a change to previously reported information. The Company is continuing to monitor the impact of the Act.

Note 7 - Stock Based Compensation Plans

The Company provides its officers and key employees incentive and non-qualified options on a discretionary basis pursuant to two stock option plans, the 1995 Stock Option Plan ("1995 Plan") and the 2000 Stock Option Plan ("2000 Plan").

The 1995 Plan, as amended, 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. The number of shares of common stock subject to issuance under the 1995 Plan is 75,000. At December 31, 2003, no further shares were available for future grant under the 1995 Plan.

The 2000 Plan, as amended, provides for 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 generally become exercisable immediately following the grant and expire ten years from the date of grant. The number of shares of common stock subject to issuance under the 2000 Plan is 150,000. At December 31, 2003, 141,501 shares were available for future grant under the 2000 Plan.

In accordance with SFAS No. 123, the Company accounts for stock-based compensation for employees under APB Opinion No. 25, *Accounting for Stock Issued to Employees*, using the intrinsic value method and has elected the disclosure-only alternative under SFAS No. 123.

The following table summarizes the activity under the stock option plans for the three-year period ended December 31, 2003:

	Number of Shares	Price per Share	Weighted Average Price per Share
Options outstanding at December 31, 2000	50,234	$8.12-$23.25	$18.86
Granted	29,704	20.39	20.39
Exercised	(8,468)	8.12-15.75	12.94
Canceled	(1,667)	20.39-23.25	22.11
Options outstanding at December 31, 2001	69,803	8.12-23.25	20.15
Granted	18,175	27.00	27.00
Exercised	(2,583)	8.12-15.75	11.33
Canceled	-	-	-
Options outstanding at December 31, 2002	85,395	8.12-27.00	21.88
Granted	50,000	24.10-26.85	25.20
Exercised	(11,701)	8.12-23.25	17.49
Canceled	(13,856)	20.39-27.00	24.47
Options outstanding at December 31, 2003	109,838	$8.12-$27.00	$23.53
Exercisable at December 31, 2003	89,838	$8.12-$27.00	$23.40
Exercisable at December 31, 2002	85,395	$8.12-$27.00	$21.88
Exercisable at December 31, 2001	69,803	$8.12-$23.25	$20.15

The following table summarizes information about options outstanding and exercisable at December 31, 2003:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Shares Outstanding	Remaining Contractual Life (in years)	Weighted Average Exercise Price per Share	Number of Shares Outstanding	Weighted Average Exercise Price per Share
$ 8.12	501	3.00	$ 8.12	501	$ 8.12
$ 8.63	251	2.00	$ 8.63	251	$ 8.63
$ 9.50	501	4.00	$ 9.50	501	$ 9.50
$ 15.75	5,431	5.00	$ 15.75	5,431	$ 15.75
$ 20.39	20,069	7.00	$ 20.39	20,069	$ 20.39
$ 23.25	19,835	6.00	$ 23.25	19,835	$ 23.25
$ 24.10	30,000	9.58	$ 24.10	10,000	$ 24.10
$ 26.85	20,000	9.75	$ 26.85	20,000	$ 26.85
$ 27.00	13,250	8.00	$ 27.00	13,250	$ 27.00
	109,838			89,838	

The weighted average fair value per share of options granted during 2003, 2002 and 2001 was $6.59, $7.99 and $4.96, respectively. The fair value of each option grant is estimated on the date of grant using the following assumptions:

	Year Ended December 31,		
	2003	2002	2001
Risk-free interest rate	3.30%	4.60%	5.08%
Expected dividend yield	3.42%	2.90%	4.70%
Expected lives	5 years	5 years	5 years
Expected volatility	36.00%	36.00%	34.00%

Note 8 - Shareholder Rights Plan

On April 20, 2000, the Company's Board of Directors adopted a Rights Agreement and declared a dividend of one preferred share purchase right ("Right") for each outstanding share of common stock, $1.00 par value. Each Right entitles the shareholder to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock of the Company at an exercise price of $85.00 per share, subject to adjustment. The Rights become exercisable in the event that a person or group acquires, or commences a tender or exchange offer to acquire, more than 10% of the Company's outstanding common stock. In that event, each Right will entitle the holder, other than the acquiring party, to purchase a number of common shares of the Company having a market value equal to two times the Right's exercise price. If the Company is acquired in a merger or other business combination at any time after the Rights become exercisable, the Rights will entitle the holder to purchase a certain number of shares of common stock of the acquiring company having a market value equal to two times the Right's exercise price. The Rights are redeemable by the Company at a redemption price of $.01 per Right at any time before the Rights become exercisable. The Rights will expire on April 19, 2010, unless previously redeemed. Effective immediately prior to the execution of the merger agreement discussed in Note 9, the Rights Agreement was amended to provide that neither the merger agreement nor the transactions contemplated thereby would constitute an event that would trigger the exercisability of the Rights.

Note 9 – Commitments and Contingencies

Termination of Merger Agreement

On April 29, 2002, the Company entered into a definitive agreement with Philadelphia Suburban Corporation ("PSC") to merge into a wholly-owned subsidiary of PSC with shareholders of the Company receiving shares of PSC in the merger. The merger was subject to several conditions, including, among other things, approval by the shareholders of the Company and approval by the New Hampshire Public Utilities Commission ("NHPUC"). The review of the merger by the NHPUC and approval by the Company's shareholders was expected to occur in the first half of 2003.

However, on November 26, 2002, the Board of Aldermen of the City of Nashua, New Hampshire (the "City") adopted a resolution calling for a referendum to authorize the City to pursue the acquisition, by an eminent domain proceeding or otherwise, of all or a portion of Pennichuck's water system serving the residents of the City and others. The City's voters passed the referendum on January 14, 2003. On February 4, 2003, the Company announced that it had reached an agreement with PSC to terminate PSC's pending acquisition of the Company. The decision to terminate the merger agreement resulted from the City's ongoing efforts to acquire Pennichuck's utility plant and property by eminent domain. Expenses associated with the PSC merger transaction and related issues totaled approximately $231,000 and $1,946,000 for the years ended December 31, 2003 and 2002, respectively. Those expenses consisted of the following:

	2003	2002
	($000's)	
Investment banking fees	$ -	$ 1,086
Legal and other fees relating to merger and regulatory approval	231	860
Total merger and related costs	$ 231	$ 1,946

Under current Internal Revenue Code regulations, costs relating specifically to the merger transaction may be deductible for Federal income tax purposes in the year in which the merger is terminated. As a result, the Company has realized approximately $1.5 million of merger-related direct costs for Federal income tax purposes in 2003.

Pending Municipalization Efforts

The City formally notified the Company's utility subsidiaries on February 5, 2003 of its intention to acquire all or a portion of their plant and property. The notification letters from the City stated that the City was acting pursuant to New Hampshire's utility municipalization statute. On March 25, 2003, the Company's three utilities notified the City of their decision not to sell their plant and property. Under New Hampshire statutes, a municipality may seek the NHPUC's authorization to compel the sale of utility assets through an eminent domain proceeding if the utility does not agree to sell the assets voluntarily. By letter dated March 26, 2003, the City indicated its intent to pursue such an eminent domain proceeding.

The City and the Company have had discussions since that time regarding the City's desire to acquire the Company's assets, the particular assets that the City is interested in acquiring and the price that the City would be willing to pay for those assets.

On April 8, 2003, the Town of Pittsfield formally notified Pittsfield Aqueduct Company, Inc. that it wished to acquire the plant and property of that company. The letter indicated that the Town was providing its notification pursuant to the New Hampshire utility municipalization statute. By letter dated May 28, 2003, Pittsfield Aqueduct Company, Inc. notified the Town of Pittsfield of its decision not to sell its plant and property.

To date, neither the City of Nashua nor the Town of Pittsfield has commenced an eminent domain proceeding at the NHPUC. If such a proceeding were commenced, it is not certain whether either the City or the Town would ultimately choose to complete the acquisition of any portion of the property of the Company's utility subsidiaries even if the NHPUC ultimately approved such an acquisition and established a price for it.

On February 4, 2004, the Company filed a Petition for Declaratory Judgment against the City, seeking a determination by the New Hampshire Superior Court that, among other things, the State utility municipalization statute is unconstitutional and the City has failed to commence eminent domain proceedings at the State Public Utilities Commission in a timely fashion and therefore is barred from continuing the current utility municipalization process against the Company.

The Company cannot predict the ultimate outcome of these matters. It is possible that, if the acquisition efforts of the City and/or the Town of Pittsfield are successful, the financial position of the Company would be materially impacted. No adjustments have been recorded in the accompanying condensed consolidated financial statements for these uncertainties.

<u>Regulatory Investigation</u>

The Company is the subject of an investigation by the New Hampshire Bureau of Securities Regulation (the "Bureau") and the Securities and Exchange Commission (the "SEC"). The scope of the investigation relates generally to the Company's commercialization of real estate through joint ventures involving its Southwood Corporation subsidiary and, in particular, to certain of the Company's public disclosures regarding various joint venture transactions. Specifically, the Bureau and the SEC have alleged that in Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB, the Company improperly disclosed the purchase of a home by Maurice L. Arel, the Company's former President who is also a target of the investigation, from one of the Company's real estate joint ventures as being "on the same terms which would be given to any independent third-party". In fact, the purchase was not made on such terms, and the Company believes that Mr. Arel received a benefit in the range of $50,000 to $75,000 in connection with the purchase.

In addition, the Bureau and the SEC have alleged that the Company failed to properly disclose payments from the Company's real estate joint ventures to a landscaping company with which one of Mr. Arel's sons was involved. During the seven-year period from 1996 to 2002, six of the Company's joint ventures engaged for various landscaping projects a company with which one of Mr. Arel's sons was involved. The joint ventures' payments to that landscaping company totaled approximately $517,600 during that period. In three of those years, the aggregate payments for the year exceeded $60,000. In 1999, the joint ventures paid the landscaping company a total of $259,000, the greatest amount that the joint ventures paid to the landscaping company during a single year.

The regulators have also alleged that the Company failed to disclose the fact that nearly all of its real estate joint ventures had been formed with the same developer, and that the Company did not exercise proper oversight of the activities of those various joint ventures, including by failing to obtain or to keep adequate records, such as copies of financial records, contracts, correspondence or other material information.

The Company's board of directors retained legal counsel to conduct an independent review of the allegations, under the direction of the Company's Audit Committee, and instructed the Company's executive officers and counsel to cooperate fully with the investigation by the Bureau and the SEC. That independent review is now substantially complete and the Company's counsel has briefed the regulators on the board's findings. In addition, and as a result of the independent review, Mr. Arel's employment with the Company and its subsidiaries was terminated in May 2003.

The Bureau and the SEC could seek to impose fines, penalties or other sanctions upon the Company as a result of their respective investigations. In November 2003, the Bureau and the SEC indicated a willingness to consider a global settlement of their claims against the Company and against Mr. Arel. Although no agreement or understanding has been reached, the framework of the settlement that is under consideration would consist of a fund to be established for the benefit of the Company's shareholders, a fine to be paid to the Bureau, and a payment to the Bureau to defray its expenses. In addition to the negotiations with the Bureau and the SEC regarding the proposed settlement, the Company is also engaged in negotiations with Mr. Arel as to what portion, if any, of the settlement amounts he would be responsible for paying. There can be no assurance that a settlement agreement with the regulators and Mr. Arel will in fact be reached. The Company has recorded as an expense in 2003 a liability for this settlement based on the best estimates of the Company and its legal counsel.

Operating Leases

The Company leases certain office equipment under operating lease agreements expiring through October 2008. Total rent expense was approximately $39,500, $24,300 and $17,600 for the years ended December 31, 2003, 2002 and 2001, respectively.

The Company's remaining lease commitments for all leased equipment as of December 31, 2003 are as follows:

	Amount ($000's)
2004	$ 47
2005	47
2006	31
2007	19
2008	5
	$ 149

Note 10 – Guarantees

As discussed in Note 4, Southwood holds a 50% interest in four limited liability companies known as HECOP I, HECOP II, HECOP III and HECOP IV, each of which owns land and a commercial office building, subject to a mortgage note with a local bank. The mortgage notes, totaling approximately $9.2 million, which are not included in the accompanying condensed consolidated balance sheets, are each secured by the underlying real property. In addition, Southwood is contingently liable on one-half of the outstanding balance, and as such, it has issued a guarantee to the mortgagee for its share of the guaranteed indebtedness. At December 31, 2003, Southwood was contingently liable on approximately $4.6 million of mortgage indebtedness associated with the limited liability companies.

Note 11 – Supplemental Disclosures on Cash Flow and Non-Cash Items

Supplemental cash flow information for the three years ended December 31 is presented below:

	2003	2002 ($000's)	2001
Cash paid during the year for:			
Interest	$ 1,875	$ 1,931	$ 1,972
Income taxes	$ 132	$ 645	$ 1,215
Non-cash items:			
Deferred gain on land sale	$ 1,224	$ -	$ -
Contributions in aid of construction	$ 1,811	$ 3,168	$ 2,077
Minimum pension liability adjustment:			
Accrued pension liability	$ 78	$ 615	$ -
Deferred tax and other	$ 222	$ 405	$ -
Other comprehensive income (loss)	$ 454	$ (619)	$ -

Note 12 - Business Segment Information

The Company follows the provisions of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. SFAS No. 131 establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. The Company's operating activities are grouped into three primary business segments as follows:

Water utility - Involved in the collection, treatment and distribution of potable water for domestic, industrial, commercial and fire protection service in the City of Nashua and certain surrounding communities in southern and central New Hampshire.

Real estate - Involved in the ownership, development, management and sale of industrial and residential property in Nashua and Merrimack, New Hampshire.

Contract operations and other - Includes the contract operations and laboratory testing activities of the Service Corporation and sundry activities of the Company.

The following table presents information about the Company's three primary business segments:

	2003	2002	2001
		($000's)	
Operating revenues:			
Water utility	$ 18,680	$ 18,830	$ 17,412
Real estate	949	3,088	4,156
Contract operations & other	1,759	1,504	1,186
Total operating revenues	$ 21,388	$ 23,422	$ 22,754
Operating income:			
Water utility	$ 4,113	$ 6,045	$ 5,003
Real estate	846	1,338	3,244
Contract operations & other	236	265	305
Total operating income	$ 5,195	$ 7,648	$ 8,552
Capital additions:			
Water utility	$ 8,968	$ 8,413	$ 8,211
Real estate	-	-	-
Contract operations & other	24	30	-
Total capital additions	$ 8,992	$ 8,443	$ 8,211
Total assets:			
Water utility	$ 92,031	$ 85,714	$ 79,458
Real estate	2,651	1,787	3,524
Contract operations & other	2,528	3,481	4,648
Total assets	$ 97,210	$ 90,982	$ 87,630

	2003	2002 ($000's)	2001
Depreciation and amortization expense:			
Water utility	$ 2,884	$ 2,681	$ 2,590
Real estate	-	-	413
Contract operations & other	30	95	44
Total depreciation and amortization expense	$ 2,914	$ 2,776	$ 3,047

The operating revenues within each business segment are sales to unaffiliated customers. Operating income is defined as segment revenues less operating expenses including allocable parent company expenses attributable to each business segment as shown below.

	2003	2002 ($000's)	2001
Allocated parent expenses:			
Water utility	$ 709	$ 444	$ 522
Real estate	14	49	59
Contract operations & other	60	33	26
Total allocated parent expenses	$ 783	$ 526	$ 607

The general and administrative expenses allocated by the parent company to its subsidiaries are calculated based primarily on a ratio of subsidiary revenues to consolidated revenues.

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

Within the water utility business segment, one customer accounted for approximately 10 percent of water utility revenues in 2003, 2002 and 2001. During 2003, 2002 and 2001, the water utility recorded approximately $1,847,000, $1,842,000 and $1,809,000, respectively, in water revenues which were derived from fire protection and other billings to the City of Nashua. As of December 31, 2003 and 2002, this customer accounted for approximately 11% and 10%, respectively, of total accounts receivable.

Note 13 – Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
Year Ended December 31, 2003				
Revenues	$ 4,861	$ 5,262	$ 6,394	$ 4,871
Operating Income	964	1,375	2,209	647
Net income	147	393	1,022	(315)
Earnings per common share				
Basic	$ 0.06	$ 0.16	$ 0.43	$ (0.13)
Diluted	$ 0.06	$ 0.16	$ 0.43	$ (0.13)

		First Quarter		Second Quarter		Third Quarter		Fourth Quarter
	(In thousands, except per share amounts)							
Year Ended December 31, 2002								
Revenues	$	6,865	$	5,053	$	6,537	$	4,967
Operating Income		1,672		1,459		2,910		1,606
Net income		630		(709)		1,377		1,043
Earnings per common share								
Basic	$	0.26	$	(0.30)	$	0.58	$	0.44
Diluted	$	0.26	$	(0.30)	$	0.57	$	0.44

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

We carried out an evaluation required by Rule 13a-15(b) of the Securities Exchange Act of 1934 under the supervision and with the participation of our management, including the principal executive officer and the principal financial officer, of the effectiveness of the design and operation of our "disclosure controls and procedures" as of the end of the period covered by this report.

Disclosure controls and procedures are designed with the objective of ensuring that (i) information required to be disclosed in the company's reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) information is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Based on their evaluation, the principal executive officer and the principal financial officer have concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective to provide reasonable assurance that information relating to the company (including our consolidated subsidiaries) required to be included in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms.

There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding our directors and executive officers appears under "Election of Directors" and "Corporate Governance, Board and Committee Membership" in our Proxy Statement for the Annual Meeting of Stockholders (the "Proxy Statement"), to be held April 23, 2004. Those portions of the Proxy Statement are incorporated by reference into this report.

Compliance with Section 16(a) of the Exchange Act

Information about compliance with Section 16(a) of the Exchange Act appears under "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement. That portion of the Proxy Statement is incorporated by reference into this report.

Code of Ethics

Information regarding our code of ethics (the Company's Code of Ethics for Financial Professionals) appears under "Executive Compensation - Code of Ethics for Financial Professionals" in the Proxy Statement. That portion of the Proxy Statement is incorporated by reference into this report. We will post amendments to or waivers from a provision of the Code of Ethics for Financial Professionals on our website at www.pennichuck.com.

Item 11. EXECUTIVE COMPENSATION

Information about compensation of our named executive officers and related matters appears under "Executive Compensation," "Report of the Compensation and Benefits Committee" and under "Comparative Stock Performance" in the Proxy Statement. Those portions of the Proxy Statement are incorporated by reference into this report.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information about security ownership of certain beneficial owners and management appears under "General Disclosures – Security Ownership of Certain Beneficial Owners" and "General Disclosures – Security Ownership of Management" in the Proxy Statement. Those portions of the Proxy Statement are incorporated by reference into this report. Information regarding securities authorized for issuance under equity compensation plans appears under "Executive Compensation - Equity Compensation Plans" in the Proxy Statement. That portion of the Proxy Statement is incorporated by reference into this report.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information about certain relationships and related transactions appears under "Executive Compensation - Certain Relationships and Related Transactions" in the Proxy Statement. That portion of the Proxy Statement is incorporated by reference into this report.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information about principal accountant fees and services appears under "Relationship with Independent Accountants - Fees Paid to PricewaterhouseCoopers LLP" in the Proxy Statement. That portion of the Proxy Statement is incorporated by reference into this report.

PART IV:

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

(1) The following Consolidated Financial Statements of Pennichuck Corporation and subsidiaries for the year ended December 31, 2003 are included in Part II, Item 8 hereof and are incorporated herein by reference:

Report of Independent Public Accountants

Consolidated Balance Sheets at
December 31, 2003 and 2002

Consolidated Statements of Income for each of
the years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Stockholders'
Equity for each of the years ended December 31,
2003, 2002 and 2001

Consolidated Statements of Cash Flows for each
of the years ended December 31, 2003, 2002
and 2001

Notes to Consolidated Financial Statements

(2) The following Financial Statement Schedules of Pennichuck Corporation for each of the years 2003, 2002 and 2001 are included in this report:

Report of Independent Public Accountants
on Schedules for the years ended
December 31, 2003, 2002 and 2001

I - Condensed Financial Information of Registrant
II - Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

(3) **Exhibit Index:**

The following is a list of exhibits which are either filed or incorporated by reference as part of this annual report on Form 10-K.

Exhibit Number	**Description of Exhibit**
3.1	Restated Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.1 to the Company's 1990 Form 10-K Report and incorporated herein by reference)
3.2	Articles of Amendment to the Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.2 to the Company's 1994 Form 10-KSB Report and incorporated herein by reference)
3.3	Bylaws of Pennichuck Corporation (Filed as Exhibit 3.3 to the Company's 2002 Form 10-K Report and incorporated herein by reference)
3.4	Articles of Amendment to the Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.4 to the Company's 1999 second quarter Form 10-QSB Report and incorporated herein by reference)
3.5	Articles of Amendment to the Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.5 to the Company's 2000 second quarter Form 10-QSB Report and incorporated herein by reference)
3.6	Certificate of Designation of Series A Junior Participating Preferred Stock of Pennichuck Corporation (Filed as Exhibit 3.6 to the Company's 2000 second quarter Form 10-QSB Report and incorporated herein by reference)
4.1	Rights Agreement dated as of April 20, 2000 between Pennichuck Corporation and Fleet National Bank, as Rights Agent (Exhibit 3.2 to the Company's Registration Statement on Form 8-A12G, filed on April 21, 2000 and incorporated herein by reference)
4.2	Amendment to Rights Agreement dated October 10, 2001, by and between Pennichuck Corporation and Fleet National Bank (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on April 30, 2002).
4.3	Second Amendment to Rights Agreement dated January 14, 2002, by and between Pennichuck Corporation and EquiServe Trust Company, N.A. (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on April 30, 2002).
4.4	Agreement of Substitution and Amendment of Common Shares Rights Agreement dated January 15, 2002, by and between Pennichuck Corporation and American Stock Transfer & Trust Company (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on April 30, 2002).

Exhibit Number	Description of Exhibit
4.5	Amendment to Rights Agreement dated April 29, 2002, by and between Pennichuck Corporation and American Stock Transfer & Trust Company (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 29, 2002).
10.1	Deferred Compensation Program for Directors of Pennichuck Corporation (Filed as Exhibit 10.2 to the Company's 1997 Form 10-KSB Report and incorporated herein by reference)
10.2	Amended Line of Credit Agreement dated October 2, 1991 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.7 to the Company's 1991 Form 10-K Report and incorporated herein by reference)
10.3	Second Amendment dated March 23, 1994, to Line of Credit Agreement between Pennichuck Corporation and Fleet Bank-NH dated October 2, 1991 (Filed as Exhibit 10.7 to the Company's 1994 first quarter Form 10-QSB Report and incorporated herein by reference)
10.4	Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.8 to the Company's 1994 second quarter Form 10-QSB Report and incorporated herein by reference)
10.5	Insurance Funded Deferred Compensation Agreement dated June 13, 1994 (Filed as Exhibit 10.9 to the Company's 1994 second quarter Form 10-QSB Report and incorporated herein by reference)
10.6	Amendment Agreement dated May 4, 1995, to Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.8 to the Company's 1995 second quarter Form 10-QSB Report and incorporated herein by reference)
10.7	1995 Stock Option Plan (Filed as Exhibit 4.1 to the Company's Post-Effective Amendment No. 1 to Registration Statement on Form S-8, filed September 17, 2001, No. 333-57352, and incorporated herein by reference)
10.8	Amendment Agreement dated July 31, 1996, to Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.10 to the Company's 1996 third quarter Form 10-QSB Report and incorporated herein by reference)
10.9	Amendment Agreement dated March 18, 1998, to Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.10 to the Company's 1998 first quarter Form 10-QSB report and incorporated herein by reference)

Exhibit Number	**Description of Exhibit**
10.10	Loan Agreement dated April 8, 1998, between Pennichuck Corporation, Pennichuck East Utility, Inc. and Fleet Bank- NH (Filed as Exhibit 10.11 to the Company's 1998 second quarter Form 10-QSB report and incorporated herein by reference)
10.11	Amendment Agreement dated April 24, 1998, to Loan Agreement dated April 8, 1998 between Pennichuck Corporation, Pennichuck East Utility, Inc., The Southwood Corporation, Pennichuck Water Service Corporation and Fleet Bank-NH (Filed as Exhibit 10.12 to the Company's 1998 second quarter Form 10-QSB report and incorporated herein by reference)
10.12	Employment Agreement by and between Pennichuck Corporation and Maurice L. Arel (Filed as Exhibit 10.13 to the Company's 1998 Form 10-KSB Report and incorporated herein by reference)
10.13	Form of Change of Control Agreement by and between Pennichuck Corporation and executive officers (Stephen J. Densberger, Charles J. Staab, Bonalyn J. Hartley and Donald L. Ware) each dated January 8, 1999 (Filed as Exhibit 10.14 to the Company's 1999 first quarter Form 10-QSB Report and incorporated herein by reference)
10.14	Amendment Agreement dated August 24, 1999, to Amended and Revolving Line of Credit Agreement dated March 23, 1994, between Pennichuck Corporation, Pennichuck Water Works, Inc. and Fleet Bank-NH (Filed as Exhibit 10.15 to the Company's 1999 third quarter Form 10-QSB Report and incorporated herein by reference)
10.15	2000 Stock Option Plan (Exhibit 4.1 to the Company's Post-Effective Amendment No. 1 to Registration Statement on Form S-8, No. 333-57354, filed on September 17, 2001, and incorporated herein by reference)
10.16	Employment Agreement between Donald L. Correll and Pennichuck Corporation dated August 4, 2003 (Filed as Exhibit 10.14 to the Company's 2003 third quarter Form 10-Q report and incorporated herein by reference)
14	Code of Ethics for Financial Professionals (Filed as Exhibit 14 to this Form 10-K report)
21	Subsidiaries of Pennichuck Corporation (Filed as Exhibit 21 to the Company's 1997 Form 10-KSB Report and incorporated herein by reference)
23	Consent of PricewaterhouseCoopers LLP (Filed as Exhibit 23 to this Form 10-K report)
31.1	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 31.1 to this Form 10-K report)
31.2	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 31.2 to this Form 10-K report)

Exhibit Number	Description of Exhibit
32.1	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 32.1 to this Form 10-K report)
32.2	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 32.2 to this Form 10-K report)
99.1	Dividend Reinvestment and Common Stock Purchase Plan, as amended (Filed as Exhibit 4.1 to Post-effective Amendment No. 2 to Registration Statement on Form S-3 filed on February 6, 2002, and incorporated herein by reference)

(b) Reports on Form 8-K: The following reports were filed by the Company on Form 8-K during the fourth quarter of 2003:

1. Current Report on Form 8-K dated November 21, 2003 under the caption "Item 5. Other Events and Regulation FD Disclosure."

2. Current Report on Form 8-K dated December 15, 2003 under the caption "Item 5. Other Events and Regulation FD Disclosure."

Report of Independent Auditors on
Financial Statement Schedules

To the Shareholders and Board of Directors of
Pennichuck Corporation:

Our audits of the consolidated financial statements referred to in our report dated February 24, 2004 appearing in the 2003 Annual Report to Shareholders of Pennichuck Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedules listed in Item 15(a)(2) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
February 24, 2004

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Pennichuck Corporation
Condensed Balance Sheets

	December 31, 2003	December 31, 2002
	($000's)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$377	$2,322
Refundable income taxes	1,145	334
Prepaid expenses and other	3	6
Total Current Assets	1,525	2,662
Property and Equipment	1,266	1,269
Less allowances for depreciation	(610)	(615)
	656	654
Other assets	8	8
Deferred tax asset	-----	781
Investment in subsidiaries	33,232	29,205
	$35,421	$33,310

	2003	2002
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and other current liabilities	$397	$313
Line of credit	2,000	-----
Long term debt	1,500	1,500
Other long term liabilities	774	541
Stockholders' equity	30,750	30,956
	$35,421	$33,310

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CON'T)

Pennichuck Corporation
Condensed Statements of Income

	2003	Years Ended December 31, 2002 ($000's)	2001
Operating revenues	$57	$45	$228
Operating expenses, including merger related costs	1,116	1,927	67
Operating Income (Loss)	(1,059)	(1,882)	161
Interest income & other	12	56	153
Interest (Expense)	4	(138)	(174)
Income (Loss) Before Income Taxes and Equity in Earnings of Subsidiaries	(1,043)	(1,964)	140
Income Tax (Provision)	354	798	(55)
Income (Loss) Before Equity in Earnings of Subsidiaries	(689)	(1,166)	85
Equity in Earnings of Subsidiaries	1,936	3,507	3,527
NET INCOME	$1,247	$2,341	$3,612

Condensed Statements of Cash Flows

	2003	Year Ended December 31, 2002 ($000's)	2001
OPERATING ACTIVITIES	$(109)	$(1,544)	$221
INVESTING ACTIVITIES:			
Equity Transfer to Subsidiary	2,010	1,897	(1,252)
Net increase in Property and Equipment and Other Assets	(24)	(18)	(12)
	1,986	1,879	(1,264)
FINANCING ACTIVITIES:			
Proceeds from issuance of debt	2,000	-------	-------
Advances (to) from Subsidiaries	(3,858)	615	2,158
Payment of Dividends	(2,010)	(1,944)	(1,813)
Proceeds from Dividend Reinvestment and Other, net	47	61	275
	(3,821)	(1,268)	620
DECREASE IN CASH	(1,944)	(933)	(423)
Cash at Beginning of Year	2,321	3,255	3,678
CASH AT END OF YEAR	$377	$2,322	$3,255

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CON'T)

Pennichuck Corporation
Notes to Condensed Financial Statements

NOTE A -- ACCOUNTING POLICIES

Basis of Presentation. In the parent-company-only financial statements, the Company's investment in its subsidiaries is stated at cost plus equity in undistributed earnings of its subsidiaries. Parent-company-only financial statements should be read in conjunction with the Company's Annual Report to Shareholders for the year ended December 31, 2003.

NOTE B -- COMMON DIVIDENDS FROM SUBSIDIARIES

Common stock cash dividends paid to Pennichuck Corporation by its subsidiaries were as follows:

	2003	2002 ($000's)	2001
Pennichuck Water Works, Inc.	$933	$1,829	$1,741
Pittsfield Aqueduct Company, Inc.	----	----	----
Pennichuck East Utility, Inc.	48	115	72
The Southwood Corporation	1,029	----	----
TOTAL	$2,010	$1,944	$1,813

A cash dividend of $10,350 was paid by Pennichuck Corporation for fractional shares due to a stock split in December 2001.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	Charged to Costs and Expenses ($000's)	Deductions (1)	Balance at End of Period
Allowance for doubtful accounts				
2003	$ 40	$ 13	$ 16	$ 37
2002	$ 84	$ (14)	$ 30	$ 40
2001	$ 37	$ 73	$ 26	$ 84

(1) Amounts include accounts receivable write-offs net of recoveries.

Valuation allowance for deferred tax asset (2)				
2003	$ 300	$ -	$ -	$ 300
2002	$ -	$ 300	$ -	$ 300
2001	$ -	$ -	$ -	$ -

(2) See Note 2 in the Notes to the accompanying Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 29th of March 2004.

Pennichuck Corporation

By: /s/ Donald L. Correll
Donald L. Correll,
President and Chief Executive Officer

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

Signature	Title	Date
/s/ Donald L. Correll Donald L. Correll	President, Chief Executive Officer and Director (Principal Executive Officer)	March 29, 2004
/s/ Stephen J. Densberger Stephen J. Densberger	Executive Vice President and Director	March 29, 2004
/s/ Charles J. Staab Charles J. Staab	Vice President, Treasurer, Chief Financial Officer and Director (Principal Financial Officer and Principal Accounting Officer)	March 29, 2004
/s/ Joseph A. Bellavance Joseph A. Bellavance	Director	March 25, 2004
/s/ Steven F. Bolander Steven F. Bolander	Director	March 26, 2004
/s/ Michelle L. Chicoine Michelle L. Chicoine	Director	March 29, 2004
/s/ Charles E. Clough Charles E. Clough	Director	March 26, 2004
/s/ Robert P. Keller Robert P. Keller	Director	March 29, 2004
/s/ John R. Kreick John R. Kreick	Director	March 29, 2004
/s/ Hannah M. McCarthy Hannah M. McCarthy	Director	March 25, 2004
/s/ Martha E. O'Neill Martha E. O'Neill	Director	March 29, 2004

Exhibit 14

February 2004

PENNICHUCK CODE OF ETHICS FOR FINANCIAL PROFESSIONALS

This Pennichuck Code of Ethics for Financial Professionals applies to the principal executive officer of Pennichuck Corporation and its reporting subsidiaries and all professionals serving in a finance, accounting, treasury, tax or investor relations role. Pennichuck expects all of its employees to act in accordance with the highest standards of personal and professional integrity in all aspects of their activities, to comply with all applicable laws, rules and regulations, to deter wrongdoing and abide by the Pennichuck Code of Conduct and other policies and procedures adopted by Pennichuck that govern the conduct of its employees. This Code of Ethics is intended to supplement the Pennichuck Code of Conduct.

You agree to:

(a) Engage in and promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

(b) Avoid conflicts of interest and to disclose to the Chairman of the Audit Committee any material transaction or relationship that reasonably could be expected to give rise to such a conflict;

(c) Take all reasonable measures to protect the confidentiality of non-public information about Pennichuck Corporation or its subsidiaries and their customers obtained or created in connection with your activities and to prevent the unauthorized disclosure of such information unless required by applicable law or regulation or legal or regulatory process;

(d) Produce full, fair, accurate, timely, and understandable disclosure in reports and documents that Pennichuck or its subsidiaries files with, or submits to, the Securities and Exchange Commission and other regulators and in other public communications made by Pennichuck or its subsidiaries;

(e) Comply with applicable governmental laws, rules and regulations, as well as the rules and regulations of self-regulatory organizations of which Pennichuck or its subsidiaries is a member; and

(f) Promptly report any possible violation of this Code of Ethics to the Chairman of the Audit Committee of Pennichuck or any of the parties or channels listed in the Pennichuck Code of Conduct.

You are prohibited from directly or indirectly taking any action to fraudulently influence, coerce, manipulate or mislead Pennichuck or its subsidiaries' independent public auditors for the purpose of rendering the financial statements of Pennichuck or its subsidiaries misleading.

You understand that you will be held accountable for your adherence to this Code of Ethics. Your failure to observe the terms of this Code of Ethics may result in disciplinary action, up to and including termination of employment. Violations of this Code of Ethics may also constitute violations of law and may result in civil and criminal penalties for you, your supervisors and/or Pennichuck.

If you have any questions regarding the best course of action in a particular situation, you should promptly contact the Chairman of the Audit Committee. You may choose to remain anonymous in reporting any possible violation of this Code of Ethics.

Your Personal Commitment to the Pennichuck Code of Ethics for Financial Professionals

I acknowledge that I have received and read the Pennichuck Code of Ethics for Financial Professionals, dated February 2004 and understand my obligations as an employee to comply with the Code of Ethics.

I understand that my agreement to comply with the Code of Ethics does not constitute a contract of employment.

Please sign here:______________________________Date:_____________

Please print your name:_________________________

This signed and completed form must be returned to the President's office.

Exhibit 23

Consent of Independent Auditors

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (No. 333-57352 and No. 333-57354) of Pennichuck Corporation of our reports dated February 24, 2004 relating to the financial statements and financial statement schedules, which appear in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
February 24, 2004

Exhibit 31.1

SECTION 302 CERTIFICATION OF THE PRESIDENT AND PRINCIPAL EXECUTIVE OFFICER

I, Donald L. Correll, certify that:

1. I have reviewed this annual report on Form 10-K of Pennichuck Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 29, 2004

/s/Donald L. Correll
Donald L. Correll, President and
Principal Executive Officer

Exhibit 31.2

SECTION 302 CERTIFICATION OF THE VICE PRESIDENT, TREASURER AND PRINCIPAL FINANCIAL OFFICER

I, Charles J. Staab, certify that:

1. I have reviewed this annual report on Form 10-K of Pennichuck Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 29, 2004

/s/ Charles J. Staab
Charles J. Staab, Vice President, Treasurer and Principal Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K for the year ended December 31, 2003 of Pennichuck Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald L. Correll, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.

Dated: March 29, 2004

/s/ Donald L. Correll
Name: Donald L. Correll
Title: President and Chief Executive Officer

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K for the year ended December 31, 2003 of Pennichuck Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles J. Staab, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.2 is expressly and specifically incorporated by reference in any such filing.

Dated: March 29, 2004

/s/ Charles J. Staab
Name: Charles J. Staab
Title: Vice President, Treasurer and Chief Financial Officer

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2004

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)

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

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

4 Water Street
Nashua, New Hampshire 03061
(Former address of principal executive offices)

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 __X__ NO ____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
YES ______ NO __X__

The number of shares of the registrant's common stock, $1 par value, outstanding as of May 11, 2004 was 2,396,340.

PENNICHUCK CORPORATION AND SUBSIDIARIES
FORM 10-Q
March 31, 2004

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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	March 31, 2004 (Unaudited)	December 31, 2003
ASSETS		
Property, plant and equipment	$116,430	$115,486
Less accumulated depreciation	(30,475)	(29,759)
Net property, plant and equipment	85,955	85,727
Current Assets		
Cash and cash equivalents	511	391
Accounts receivable, net of allowance of $37 in 2004 and 2003	2,907	2,995
Refundable income taxes	1,159	1,145
Materials and supplies, at cost	764	726
Prepaid expenses and other current assets	654	519
	5,995	5,776
Other Assets		
Deferred land costs	873	849
Deferred charges and other assets	3,649	3,634
Note receivable	1,224	1,224
	5,746	5,707
TOTAL ASSETS	$97,696	$97,210
STOCKHOLDERS' EQUITY AND LIABILITIES		
Stockholders' Equity		
Common stock - $1 par value		
Authorized - 11,500,000 shares		
Issued - 2,397,292 and 2,397,092 shares, respectively	$2,397	$2,397
Additional paid in capital	15,211	15,208
Retained earnings	12,642	13,178
Accumulated other comprehensive income	(445)	(473)
Less treasury stock, at cost; 952 shares	(138)	(138)
	29,667	30,172
Minority interest	9	8
Long-term debt, less current portion	26,936	26,879
Current Liabilities		
Line of credit	3,000	2,000
Current portion of long-term debt	368	368
Accounts payable	322	913
Accrued interest payable	285	370
Other accrued liabilities	1,814	1,773
	5,789	5,424
Deferred Credits and Other Reserves		
Contributions in aid of construction	21,940	21,895
Deferred income taxes	9,016	8,552
Deferred gain on land sale	1,224	1,224
Other liabilities and deferred credits	3,115	3,056
TOTAL STOCKHOLDERS' EQUITY & LIABILITIES	$97,696	$97,210

See notes to condensed consolidated financial statements

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except share and per share data)

	Three Months Ended	
	March 31, 2004	March 31, 2003
Revenues		
Water utility operations	$4,220	$4,052
Real estate operations	101	453
Contract operations	463	344
Other	14	12
	4,798	4,861
Operating Expenses		
Water utility operations	3,625	3,377
Real estate operations	38	23
Contract operations	372	273
Other	21	---
	4,056	3,673
Operating Income	742	1,188
Eminent domain taking and other expenses	(289)	(479)
Other (expense) income	(6)	12
Interest expense	(495)	(490)
(Loss) Income Before Provision for Income Taxes	(48)	231
(Benefit) Provision for Income Taxes	(27)	84
Net (Loss) Income	$(21)	$147
(Loss) Earnings per Common Share:		
Basic	$ (.01)	$ .06
Diluted	$ (.01)	$ .06
Weighted Average Common Shares Outstanding:		
Basic	2,396,252	2,391,439
Diluted	2,396,252	2,397,780
Dividends Paid per Common Share	$.215	$.195

See notes to condensed consolidated financial statements

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Operating Activities:		
Net (loss) income	$(21)	$ 147
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	757	710
Gain on sale of land	---	(257)
Amortization of deferred investment tax credits	(8)	(8)
Provision for deferred income taxes	445	45
Changes in other assets and liabilities	(639)	523
Net cash provided by operating activities	534	1,160
Investing Activities:		
Purchase of property, plant and equipment	(875)	(891)
Contributions in aid of construction	21	127
Proceeds from sale of land	---	257
Net change in investment in real estate partnerships and deferred land costs	(105)	(93)
Net cash used in investing activities	(959)	(600)
Financing Activities:		
Payments on long-term debt	(6)	(7)
Advances on line of credit	1,000	---
Proceeds from long-term borrowings	63	89
Proceeds from issuance of common stock	3	---
Dividends paid	(515)	(466)
Net cash provided by (used in) financing activities	545	(384)
INCREASE IN CASH AND CASH EQUIVALENTS	120	176
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	391	2,444
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$511	$ 2,620

Supplemental Cash Flow Information: Interest paid was approximately $570,000 and $559,000 for the three months ended March 31, 2004 and 2003, respectively. Income taxes paid were approximately $4,000 for the three months ended March 31, 2004. No income taxes were paid during the three months ended March 31, 2003. Non-cash items for the three months ended March 31, 2004 and 2003 included Contributions in Aid of Construction totaling approximately $117,000 and $92,000, respectively. Additionally, non-cash items for the three months ended March 31, 2003 included the deferred gain on a land sale of approximately $1.2 million and the related long-term note receivable as discussed in Note 6 of the Notes to Condensed Consolidated Financial Statements.

See notes to condensed consolidated financial statements

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
March 31, 2004

Note 1 – Background

These financial statements include the accounts of Pennichuck Corporation (the "Company") and its wholly-owned subsidiaries, Pennichuck Water Works, Inc. ("Pennichuck"), Pittsfield Aqueduct Company, Inc. ("Pittsfield"), Pennichuck East Utility, Inc. ("Pennichuck East"), The Southwood Corporation ("Southwood") and Pennichuck Water Service Corporation (the "Service Corporation"). The financial statements also include the accounts of Westwood Park LLC ("Westwood") in which Southwood owns a 60% majority interest. All significant intercompany transactions have been eliminated in consolidation.

Certain amounts for the three months ended March 31, 2003 have been reclassified to conform to the 2004 financial statement presentation. These reclassifications had no effect on net income and relate primarily to the reclassification of certain expenses from "other expenses" to "eminent domain taking and other expenses" in the Condensed Consolidated Statements of Operations.

Note 2 – Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-Q and Regulation S-X pertaining to interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. The Balance Sheet amounts shown under the December 31, 2003 column have been derived from the audited financial statements of the Company as contained in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

(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) Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148, *"Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment to FASB Statement No. 123"* ("SFAS 148") which provides for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires prominent disclosures in both interim and annual financial statements about the method of accounting for stock-based employee compensation. At this time, the Company does not intend to change to the fair value based method of accounting for stock-based compensation. On a pro forma basis, the Company's net income and earnings per share would have been reduced to the following amounts had compensation cost for the plan been determined consistent with SFAS No. 123, *"Accounting for Stock-Based Compensation"*.

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	(In thousands, except per share data)	
Net (loss) income as reported	$ (21)	$ 147
Less:		
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related taxes	(200)	-
Pro forma net (loss) income	$ (221)	$ 147
Basic net (loss) income per share:		
As reported	$ (0.01)	$ 0.06
Pro forma	$ (0.09)	$ 0.06
Diluted net (loss) income per share:		
As reported	$ (0.01)	$ 0.06
Pro forma	$ (0.09)	$ 0.06

Note 3 – New Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, *"Consolidation of Variable Interest Entities"*, as amended and revised in December 2003 ("FIN 46R"), which addresses the consolidation of variable interest entities ("VIE"s) by business enterprises that are the primary beneficiaries. A VIE is an entity that does not have sufficient equity investment at risk to permit it to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest. The primary beneficiary of a VIE is the enterprise with the majority of the risks or rewards associated with the VIE. Application of this Interpretation is required for all potential VIEs that are referred to as special-purpose entities for periods ending after December 15, 2003 and, for all other types of entities that are potential VIEs that are not referred to as special purpose entities, the consolidation requirements apply for periods ending after March 15, 2004. The Company has assessed the impact of FIN 46R and has determined that it does not have any VIEs for which the Company is the primary beneficiary requiring consolidation of the entity as of March 31, 2004.

Note 4 – Benefit Plans

Pension Plan

The Company sponsors a non-contributory, defined benefit pension plan (the "Plan") that covers substantially all full-time employees. The benefits are formula-based, giving consideration to both past and future service as well as participant compensation levels. The Company's funding policy is to contribute annually allowable amounts deductible for federal tax purposes. 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. There were no contributions to the Plan during the three months ended March 31, 2004. The Company anticipates that it will contribute approximately $240,000 to the Plan in 2004.

Effective for the quarter ended March 31, 2004, SFAS No. 132R, *"Employers' Disclosures about Pension and Other Postretirement Benefits"*, requires disclosure of the net periodic pension and postretirement benefit cost. Components of net periodic pension benefit cost were as follows:

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	($000's)	
Service cost	$ 76	$ 40
Interest cost	88	54
Expected return on plan assets	(99)	(50)
Amortization of prior service cost	-	-
Amortization of transition asset	(4)	(3)
Recognized net actuarial loss	14	12
Net periodic benefit cost	$ 75	$ 53

Other Post-employment Benefits

The Company also provides post-retirement medical benefits to current and retired employees through separate post-retirement medical plans for its union and non-union employees. These benefits include health insurance coverage and reimbursement of certain Medicare premiums for certain retirees. Additionally, in 2003, the Company began offering, through a separate plan, post-employment medical benefits for employees who retire prior to their normal retirement age and who have met certain age and service requirements. The benefits under this plan allow continuity of coverage at group rates from the employee's retirement date until the employee becomes eligible for Medicare.

There were no contributions to these Plans during the three months ended March 31, 2004. The Company anticipates that it will contribute approximately $75,000 for these benefits in 2004.

Components of net periodic post-retirement and post-employment benefit costs were as follows:

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	($000's)	
Service cost	$ 25	$ 13
Interest cost	22	16
Expected return on plan assets	(10)	(5)
Amortization of prior service cost	6	3
Amortization of transition asset	-	-
Recognized net actuarial loss	5	2
Net periodic benefit cost	$ 48	$ 29

The net periodic pension and other post-retirement benefit costs for the first quarter were estimated based on the latest available participant census data. A full actuarial valuation will be completed during the third quarter. At that time, the cost amounts will be adjusted based on the actual actuarial study results.

In December 2003, the FASB issued Staff Position (FSP) 106-1, *"Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"* (the "Act"). The Act provides for drug benefits for retirees over the age of 65 under a new Medicare Part D program. For employers like the Company, who currently provide retiree medical programs for former employees over the age of 65, there are potential subsidies available which are inherent in the Act. The Act potentially entitles these employers to a direct tax-exempt federal subsidy.

In accordance with this FSP, the Company elected to defer recognition of the provisions of this Act until further accounting guidance is issued. As a result, the provisions of the Act are not reflected in this disclosure or in the accompanying Condensed Consolidated Financial Statements. Specific authoritative accounting guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require the Company to change previously reported amounts related to accumulated benefit obligations and net periodic postretirement benefit costs.

In April 2004, the FASB issued a proposed Staff Position that provides proposed guidance on the accounting for the effects of the Act. The proposed guidance indicates that, when an employer initially accounts for the subsidy, the effect on the accumulated postretirement benefit obligation should be accounted for as an actuarial gain (assuming no plan amendments are made). In addition, since the subsidy would affect the employer's share of its plan's costs, the subsidy is included in measuring the costs of benefits attributable to current service. Therefore, the subsidy should reduce service cost when it is recognized as a component of net periodic postretirement benefit cost. After a comment period, this Staff Position is currently expected to be effective in the third quarter of 2004. The Company is evaluating the impact that the Act and this Staff Position will have on its financial position.

Note 5 – Commitments and Contingencies

Termination of Merger Agreement

On April 29, 2002, the Company entered into a definitive agreement with Philadelphia Suburban Corporation ("PSC") to merge into a wholly-owned subsidiary of PSC with shareholders of the Company receiving shares of PSC in the merger. The merger was subject to several conditions, including, among other things, approval by the shareholders of the Company and approval by the New Hampshire Public Utilities Commission ("NHPUC"). The review of the merger by the NHPUC and approval by the Company's shareholders was expected to occur in the first half of 2003.

However, on November 26, 2002, the Board of Aldermen of the City of Nashua, New Hampshire (the "City") adopted a resolution calling for a referendum to authorize the City to pursue the acquisition, by an eminent domain proceeding or otherwise, of all or a portion of Pennichuck's water system serving the residents of the City and others. The City's voters passed the referendum on January 14, 2003. On February 4, 2003, the Company announced that it had reached an agreement with PSC to terminate PSC's pending acquisition of the Company. The decision to terminate the merger agreement resulted from the City's ongoing efforts to acquire Pennichuck's utility plant and property by eminent domain. Expenses associated with the PSC merger transaction and related issues totaled approximately $231,000 and $1,946,000 for the years ended December 31, 2003 and 2002, respectively. Those expenses consisted of the following:

	2003	2002
	($000's)	
Investment banking fees	$ -	$ 1,086
Legal and other fees relating to merger and regulatory approval	231	860
Total merger and related costs	$ 231	$ 1,946

Under current Internal Revenue Code regulations, costs relating specifically to the merger transaction may be deductible for Federal income tax purposes in the year in which the merger is terminated. As a result, the Company realized approximately $1.5 million of merger-related direct costs for Federal income tax purposes in 2003.

Eminent Domain

The City formally notified the Company's utility subsidiaries (the "Utilities") on February 5, 2003 of its intention to acquire all or a portion of their plant and property. The notification letters from the City stated that it was acting pursuant to New Hampshire's utility municipalization statute, RSA Ch. 38. On March 25, 2003, the Utilities notified the City of their decision not to sell their plant and property. Under RSA Ch. 38, a municipality may seek the NHPUC's authorization to compel the sale of utility assets through an eminent domain proceeding if the utility does not agree to sell the assets voluntarily.

By letter dated March 26, 2003, the City indicated its intent to pursue such an eminent domain proceeding. On February 4, 2004, the Company and the Utilities filed a Petition for Declaratory Judgment against the City, seeking a determination by the New Hampshire Superior Court that, among other things, RSA Ch. 38 is unconstitutional and that the City had failed to commence eminent domain proceedings at the NHPUC in a timely fashion and therefore is barred from continuing the current utility municipalization process against the Utilities.

On March 25, 2004, the City filed a petition with the NHPUC asking it to find that it is in the public interest for the City to take the Utilities' assets and requesting that the NHPUC set a price for those assets. On April 5, 2004, Pennichuck filed a Motion to Dismiss the City's petition, asking the NHPUC to dismiss Nashua's eminent domain petition on a number of grounds or, alternatively, to stay the proceeding pending the outcome of the Superior Court declaratory judgment case. On April 8, 2004, Pennichuck amended its declaratory judgment petition to ask the Superior Court to rule that the City does not have the authority under RSA Ch. 38 to take the assets of PEU and PAC, the two Pennichuck utility subsidiaries that do not provide service in Nashua, or those assets of PWW that are not necessary to provide service in the City. At the same time, Pennichuck also filed a Motion for Preliminary Injunction, asking the Superior Court to enjoin the City from proceeding with its case before the NHPUC for the same reasons. The City has since filed objections to Pennichuck's motions before the NHPUC and in the Superior Court. On April 20, 2004, Pennichuck filed a suit for damages against the City, seeking recovery of approximately $5-6 million on numerous grounds. Also, on April 29, 2004, the City filed motions before the NHPUC and in Superior Court seeking to disqualify Pennichuck's legal counsel. Pennichuck subsequently filed objections to both motions. On May 3, 2004, the NHPUC issued a letter stating that it would not commence a proceeding in response to the City's eminent domain petition until after the Superior Court issued a ruling in response to Pennichuck's injunction request. A hearing is scheduled before the court on Pennichuck's Motion for Preliminary Injunction on May 13, 2004.

On April 8, 2003, the Town of Pittsfield formally notified Pittsfield Aqueduct Company, Inc. that it wished to acquire the plant and property of that company. The letter indicated that the Town was providing its notification pursuant to the New Hampshire utility municipalization statute. By letter dated May 28, 2003, Pittsfield Aqueduct Company, Inc. notified the Town of Pittsfield of its decision not to sell its plant and property. To date, the Town of Pittsfield has not commenced an eminent domain proceeding at the NHPUC.

If the City of Nashua is allowed to proceed with its case before the NHPUC, and if the Town of Pittsfield files such a case, it is not certain whether either municipality would ultimately choose to complete the acquisition of any portion of the property of the Company's utility subsidiaries even if the NHPUC ultimately approved such an acquisition and established a price for it. The Company cannot predict the ultimate outcome of these matters. It is possible that, if the acquisition efforts of the City and/or the Town of Pittsfield are successful, the financial position of the Company would be materially impacted. No adjustments have been recorded in the accompanying condensed consolidated financial statements for these uncertainties.

Regulatory Investigations

The Company is the subject of an investigation by the New Hampshire Bureau of Securities Regulation (the "Bureau") and the Securities and Exchange Commission (the "SEC"). The scope of the investigation relates generally to the Company's commercialization of real estate through joint ventures involving its Southwood Corporation subsidiary and, in particular, to certain of the Company's public disclosures regarding various joint venture transactions. Specifically, the Bureau and the SEC have alleged that in Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB, the Company improperly disclosed the purchase of a home by Maurice L. Arel, the Company's former President who is also a target of the investigation, from one of the Company's real estate joint ventures as being "on the same terms which would be given to any independent third-party". In fact, the purchase was not made on such terms, and the Company believes that Mr. Arel received a benefit in the range of $50,000 to $75,000 in connection with the purchase.

In addition, the Bureau and the SEC have alleged that the Company failed to properly disclose payments from the Company's real estate joint ventures to a landscaping company with which one of Mr. Arel's sons was involved. During the seven-year period from 1996 to 2002, six of the Company's joint ventures engaged for various landscaping projects a company with which one of Mr. Arel's sons was involved. The joint ventures' payments to that landscaping company totaled approximately $517,600 during that period. In three of those years, the aggregate payments for the year exceeded $60,000. In 1999, the joint ventures paid the landscaping company a total of $259,000, the greatest amount that the joint ventures paid to the landscaping company during a single year.

The regulators have also alleged that the Company failed to disclose the fact that nearly all of its real estate joint ventures had been formed with the same developer, and that the Company did not exercise proper oversight of the activities of those various joint ventures, including by failing to obtain or to keep adequate records, such as copies of financial records, contracts, correspondence or other material information.

The Company's board of directors retained legal counsel to conduct an independent review of the allegations, under the direction of the Company's Audit Committee, and instructed the Company's executive officers and counsel to cooperate fully with the investigation by the Bureau and the SEC. That independent review is now substantially complete and the Company's counsel has briefed the regulators on the board's findings. In addition, and as a result of the independent review, Mr. Arel's employment with the Company and its subsidiaries was terminated in May 2003.

The Bureau and the SEC could seek to impose fines, penalties or other sanctions upon the Company as a result of their respective investigations. In November 2003, the Bureau and the SEC indicated a willingness to consider a global settlement of their claims against the Company and against Mr. Arel. Although no agreement or understanding has been reached, the framework of the settlement that is under consideration would consist of a fund to be established for the benefit of the Company's shareholders, a fine to be paid to the Bureau, and a payment to the Bureau to defray its expenses. In addition to the negotiations with the Bureau and the SEC regarding the proposed settlement, the Company is also engaged in negotiations with Mr. Arel as to what portion, if any, of the settlement amounts he would be responsible for paying. There can be no assurance that a settlement agreement with the regulators and Mr. Arel will in fact be reached. The Company has recorded as an expense in 2003 a liability for this settlement based on the best estimates of the Company and its legal counsel.

Guarantee of Subsidiary Indebtedness

Southwood holds a 50% interest in four limited liability companies known as HECOP I, HECOP II, HECOP III and HECOP IV, each of which owns land and three of which each own a commercial office building, subject to a mortgage note with a local bank. The remaining 50% ownership interest in each of the LLCs is principally held by John Stabile, owner of H. J. Stabile & Son, Inc. The mortgage notes, totaling $9.1 million, which are not included in the accompanying condensed consolidated balance sheets, are each secured by the underlying real property. In addition, Southwood is contingently liable on one-half of the outstanding balance, and as such, it has issued a guarantee to the mortgagee for its share of the guaranteed indebtedness. At March 31, 2004, Southwood was contingently liable on approximately $4.6 million of mortgage indebtedness associated with the limited liability companies.

Note 6 – Deferred Gain on Land Sale

In January 2003, Southwood sold a tract of land to an unaffiliated regional developer for approximately $1.5 million. Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $257,000 in cash and a long-term note receivable of $1,223,990. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.48 million, of which $257,000, representing the net cash received at closing, is included in "Revenues-Real estate operations" for 2003. The remaining gain of $1,223,990, represented by the note receivable, has been deferred until payment of the note since the requirements established under Statement of Financial Accounting Standards No. 66, *"Accounting for Sales of Real Estate,"* for recognition of all of the profit from this sale have not yet been met.

Note 7 – Subsequent Event with Related Party

On April 23, 2004, Pennichuck executed an Indenture of Lease agreement (the "lease agreement") with HECOP III, LLC for the relocation of its corporate headquarters to a new leased facility in Merrimack, New Hampshire. As discussed in Note 5, under "Guarantee of Subsidiary Indebtedness," HECOP III, LLC is one of the four limited liability companies which is 50% owned by Southwood. The lease agreement is effective on May 1, 2004 with an expiration date of April 30, 2009 and provides for 14,289 rentable square feet at prevailing market rates during the term of the lease. In connection with tenant improvements for the new facility, Stabile Construction Services, an affiliate of H. J. Stabile & Son, Inc., acted as construction manager for Pennichuck as provided for under the terms of the lease agreement. Stabile Construction Services has provided similar services for other non-related tenants in HECOPs I, II and III.

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Pennichuck Corporation (the "Company") has five wholly-owned subsidiaries. Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. ("Pittsfield") are involved in water supply and distribution in cities and towns throughout southern and central New Hampshire. These water subsidiaries are regulated by the New Hampshire Public Utilities Commission ("NHPUC") and, as such, they must obtain approval to increase their water rates to recover increases in operating expenses and to obtain the opportunity to earn a return on rate base investments. Pennichuck Water Service Corporation (the "Service Corporation") is involved in non-regulated, water-related services and contract operations. The Southwood Corporation ("Southwood") owns, manages, develops, and sells real estate, principally through real estate joint ventures.

Forward Looking Statements

In addition to historical financial information, this quarterly report, including management's discussion and analysis, contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward looking statements are based on current information and expectations available to management at the time the statements are made and on several assumptions concerning future events that involve risks, uncertainties and factors that may be beyond the Company's control. As such, the actual performance of the Company may be materially different from the future results or performance expressed or implied by the forward looking statements contained in this report. Such statements address the following subjects, among others: the commencement of eminent domain proceedings before the NHPUC to acquire the Company's water utility assets, ongoing litigation with respect thereto and impact thereof on the Company's consolidated business operations and planning; timeliness and extent of water utility rate increases, if any; future operating results in the water utility and real estate sectors; earnings growth and expectations; and corporate spending and liquidity. The following factors, among others, could cause actual results to differ materially from those described in the forward looking statements: with respect to eminent domain and related litigation proceedings, the timeframe in which proceedings occur, and the results thereof or negotiated alternatives thereto; with respect to regulated water utility rate relief, the timing and amount of rate increases as well as general regulatory lag in realizing changes; with respect to water utility operations, the impact of weather, such as the amount of rainfall and temperature; with respect to real estate development, the impact of overall economic conditions in the local and national economy; with respect to corporate spending and liquidity, changes in capital projects as well as enhanced security measures that may affect the Company's level of capital expenditures. We undertake no obligation to update or revise forward looking statements, whether as a result of new information, future events or otherwise.

Eminent Domain

The Company is the subject of eminent domain efforts by the City of Nashua (the "City") and the Town of Pittsfield (the "Town") regarding their desire to acquire all or a portion of the Company's water utility assets. In addition, a number of other communities whose residents are served by one or more of the Company's subsidiaries have expressed interest in forming a regional water authority for the purposes of acquiring and operating a substantial portion of the Company's water related assets. The acquisition of Company assets by eminent domain would be highly uncertain and likely involve protracted proceedings before the NHPUC.

Given the highly integrated nature of the Company's businesses, a forced sale of some or all of the Company's water-related assets may result in increased costs and operating inefficiencies borne by the remaining assets of the Company not so acquired. Additionally, the Service Corporation's ability to service its existing contracts as well as pursue additional operating contracts may be impaired. There is no assurance that the City of Nashua or a regional water authority, if any, would be successful in acquiring some or all of the Company's assets by eminent domain, nor in such case is there any assurance as to the price determined by the NHPUC to be paid for those assets. The status of these eminent domain efforts is discussed in greater detail in "Note 5 – Commitments and Contingencies – Eminent Domain," to the Notes to Condensed Consolidated Financial Statements.

Regulatory Investigations

The Company is the subject of an investigation by the New Hampshire Bureau of Securities Regulation (the "Bureau") and the Securities and Exchange Commission (the "SEC"). The scope of the investigation relates generally to the Company's commercialization of real estate through joint ventures involving its Southwood Corporation subsidiary and, in particular, to certain of the Company's public disclosures regarding various joint venture transactions. Specifically, the Bureau and the SEC have alleged that in Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB, the Company improperly disclosed the purchase of a home by Maurice L. Arel, the Company's former President who is also a target of the investigation, from one of the Company's real estate joint ventures as being "on the same terms which would be given to any independent third-party". In fact, the purchase was not made on such terms, and the Company believes that Mr. Arel received a benefit in the range of $50,000 to $75,000 in connection with the purchase.

In addition, the Bureau and the SEC have alleged that the Company failed to properly disclose payments from the Company's real estate joint ventures to a landscaping company with which one of Mr. Arel's sons was involved. During the seven-year period from 1996 to 2002, six of the Company's joint ventures engaged for various landscaping projects a company with which one of Mr. Arel's sons was involved. The joint ventures' payments to that landscaping company totaled approximately $517,600 during that period. In three of those years, the aggregate payments for the year exceeded $60,000. In 1999, the joint ventures paid the landscaping company a total of $259,000, the greatest amount that the joint ventures paid to the landscaping company during a single year.

The regulators have also alleged that the Company failed to disclose the fact that nearly all of its real estate joint ventures had been formed with the same developer, and that the Company did not exercise proper oversight of the activities of those various joint ventures, including by failing to obtain or to keep adequate records, such as copies of financial records, contracts, correspondence or other material information.

The Company's board of directors retained legal counsel to conduct an independent review of the allegations, under the direction of the Company's Audit Committee, and instructed the Company's executive officers and counsel to cooperate fully with the investigation by the Bureau and the SEC. That independent review is now substantially complete and the Company's counsel has briefed the regulators on the board's findings. In addition, and as a result of the independent review, Mr. Arel's employment with the Company and its subsidiaries was terminated in May 2003.

The Bureau and the SEC could seek to impose fines, penalties or other sanctions upon the Company as a result of their respective investigations. In November 2003, the Bureau and the SEC indicated a willingness to consider a global settlement of their claims against the Company and against Mr. Arel. Although no agreement or understanding has been reached, the framework of the settlement that is under consideration would consist of a fund to be established for the benefit of the Company's shareholders, a fine to be paid to the Bureau, and a payment to the Bureau to defray its expenses. In addition to the negotiations with the Bureau and the SEC regarding the proposed settlement, the Company is also engaged in negotiations with Mr. Arel as to what portion, if any, of the settlement amounts he would be responsible for paying. There can be no assurance that a settlement agreement with the regulators and Mr. Arel will in fact be reached. The Company has recorded as an expense in 2003 a liability for this settlement based on the best estimates of the Company and its legal counsel.

Results of Operations - - Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003

For the three months ended March 31, 2004, the Company incurred a consolidated net loss of $21,000, or $.01 basic loss per share. For the same period in 2003, the Company's consolidated net income was $147,000, or $.06 basic earnings per share. The Company's consolidated revenues for the first quarter of 2004 totaled $4.8 million – a 1.3% decrease from the first quarter of 2003. As discussed below, this slight decline in consolidated revenues occurred primarily in the Company's real estate segment due to the sale of a tract of land that occurred in January 2003.

Our consolidated revenues are generally seasonal due to the overall significance of the water sales of Pennichuck, Pennichuck East and Pittsfield as a percent of consolidated revenues. Water revenues are typically at their lowest point during the first and fourth quarters of the calendar year while water revenues in the second and third quarters tend to be greater as a result of increased water consumption during the late spring and summer months. In addition, our consolidated revenues may be significantly affected by sales of major real estate parcels, which may occur from time to time.

<u>Water Utility Operations</u>

The Company's water utility operations include the activities of Pennichuck, Pennichuck East and Pittsfield, each of which is regulated by the NHPUC. Utility operating revenues for the three months ended March 31, 2004 were $4,220,000, comprised of $3,440,000 from Pennichuck, $663,000 from Pennichuck East and $117,000 from Pittsfield.

The increase in combined utility revenues, which occurred primarily in Pennichuck and Pennichuck East, was partially the result of a 2% increase in total new customers from March 2003 to March 2004. In the past twelve months, the number of customers in our utilities' community water systems has increased from 6,304 to 6,630, or by 326 customers. By contrast, however, the number of customers within Pennichuck's core system has increased by only 256 customers -- from 21,930 at the end of March 2003 to 22,186 at the end of March 2004. These growth trends are consistent with our historical experience in recent prior years.

Despite the modest growth in utility revenues, the 2004 first quarter combined operating income of the utilities declined by 12% to $595,000, principally due to increased maintenance expenses and other costs relating to the utilities' investment in new plant over the past year. Total utility operating expenses were $3,625,000 for the quarter ended March 31, 2004, a $248,000, or 7.3%, increase over the same period last year. The combined water utilities' operating costs increased primarily due to:

(i) approximately $33,000 of increased treatment and purchased water costs associated with operating our community systems in Pennichuck East during the first quarter of 2004, reflecting the increase in customer base in those systems;

(ii) approximately $95,000 for additional non-union salary increases and property and liability insurance premiums, consistent with recent changes in the insurance market; and

(iii) additional depreciation charges and property taxes totaling $54,000 and $37,000, respectively, associated with approximately $7.2 million of new utility plant and equipment placed in service during the past year.

On March 30, 2004, Pennichuck filed a Notice of Intent to File for Rate Relief in which it is seeking an increase in annualized water revenues of approximately $2.34 million. It is uncertain (i) whether or not this rate case will be concluded in 2004, and (ii) the amount of rate increase which will ultimately be determined by the NHPUC.

Real Estate Operations

For the three months ended March 31, 2004, revenues from Southwood's real estate activities were $101,000 compared to $453,000 in the same quarter of 2003. Last year's revenues included approximately $257,000 representing the net cash received at closing from the sale of a 67 acre parcel of unimproved land for approximately $1.5 million. Under the terms of that sale, Southwood also received a long-term note receivable of $1.22 million. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.48 million, of which $257,000 was recognized in 2003. The remaining gain of approximately $1.22 million, represented by the note receivable, has been deferred until payment of the note since the requirements established under Statement of Financial Accounting Standards No. 66, *"Accounting for Sales of Real Estate"* for recognition of all of the profit from this sale have not yet been met. For the three months ended March 31, 2004, Southwood has recorded approximately $17,000 of interest income earned on this note.

Southwood holds a 50% ownership interest in four limited liability companies ("LLCs"), known as HECOP I, HECOP II, HECOP III and HECOP IV. Each of these LLCs owns land and three of the LLCs each own a commercial office building in Merrimack, New Hampshire. The remaining 50% ownership interest in each of the LLC's is principally held by John Stabile, a local developer, with whom Southwood has also participated in four residential joint ventures during the past 10 years. The assets and liabilities of those LLCs are not included in the accompanying Condensed Consolidated Balance Sheets. For the quarters ended March 31, 2004 and 2003, Southwood recognized revenues of approximately $81,000 and $158,000, respectively, representing its 50% share of the pretax operating income from these LLCs. The decline in pretax operating income primarily reflects a loss of approximately $100,000 of rental income resulting from 25,600 square feet of office vacated in January 2004 by of one the tenants in the HECOP III building. However, as reported in "Note 7 – Subsequent Event with Related Party" to the Notes to Condensed Consolidated Financial Statements, Pennichuck has entered into a 5 year lease effective May 1, 2004, for 14,289 square feet of office space in HECOP III.

Contract Operations

Revenues from contract operations were $463,000 for the three months ended March 31, 2004, compared to $344,000 for the same period in 2003. The Service Corporation's revenues consist chiefly of fees earned under various operations and billing contracts as well as rental income from several tower leases. The $119,000 increase in contract revenues over the same period last year is principally due to: (1) additional work performed under the Service Corporation's two largest operating contracts with the Town of Hudson, New Hampshire and the Town of Salisbury, Massachusetts; and (2) additional contract revenues from 15 new community water system contracts. During the first quarter of 2004, the Service Corporation did not acquire any new operating contracts.

Operating expenses associated with our contract operations were $372,000 for the first quarter of 2004 compared to $273,000 for the first quarter of 2003. The increase in operating expenses resulted primarily from $88,000 in additional direct expenses associated with the Hudson and Salisbury contracts and an increase in allocable intercompany expenses related to the Service Corporation's activities during the quarter.

Eminent Domain Taking and Other Expenses

During the first quarter of 2004, the Company incurred approximately $289,000 of legal and other fees in connection with the eminent domain proceeding conducted by the City of Nashua (the "City") and the pending regulatory investigations discussed in "Note 5 – Commitments and Contingencies" to the Notes to Condensed Consolidated Financial Statements. During the first quarter of 2003, the Company also incurred approximately $231,000 in merger costs relating to the terminated merger agreement with Philadelphia Suburban Corporation. A breakout of these costs for the quarters ended March 31, 2004 and 2003 is shown in the following table.

	2004	2003
Eminent domain taking	$251,000	$ 93,000
Regulatory investigations	38,000	155,000
Terminated merger	-	231,000
Total	$289,000	$479,000

The Company currently expects that it will continue to incur significant legal and other costs associated with the eminent domain taking by the City until final resolution of this matter. The future adverse impact of such additional costs and the duration of this matter cannot be reasonably determined at this time.

Liquidity and Financial Condition

Typically, our cash needs are at their lowest point of the year during the first quarter since construction activity for our water utilities and the related capital expenditures do not normally begin until the second quarter. During the first quarter of 2004, the primary sources of cash needed for our day-to-day operating activities, debt service and dividend payments were (i) operating cash flow, (ii) available cash from the Company's short-term investments at the beginning of the year and (iii) additional borrowings under its revolving line of credit loan facility (the "Loan Agreement") with its bank, Bank of America ("BofA").

On March 29, 2004, the Company and BofA amended the Loan Agreement to increase the available short-term credit from \$2.5 million to \$6.5 million. This increase is necessary in order to fund (i) the Company's planned capital expenditures over the next two years, (ii) any shortfall in operating cash flow and (iii) future costs associated with the Company's defense against the City of Nashua's eminent domain taking efforts and the likely settlement of the governmental regulatory investigations discussed in "Note 5- Commitments and Contingencies" to the Notes to Condensed Consolidated Financial Statements. At March 31, 2004, there were \$3 million in outstanding borrowings under this Loan Agreement at floating interest rates ranging from 2.31% to 2.47%.

For 2004, we expect that our total expenditures for capital projects will be approximately \$6.99 million. Funding for our current year capital projects is expected to be derived from a combination of contributions in aid of construction, state grants and low-interest, state revolving loans and a planned tax exempt bond offering as well as from internally-generated funds and short-term borrowings under the Company's Loan Agreement.

At March 31, 2004, the Company's cash and cash equivalents, primarily short-term investments, totaled approximately \$511,000, representing a \$120,000 increase from the end of 2003. As discussed under "Results of Operations – Water Utility Operations," Pennichuck, the Company's largest regulated subsidiary, filed a Notice of Intent to File for Rate Relief with the NHPUC on March 30, 2004 in which it is seeking an overall rate increase in its rates, which if granted, would result in approximately \$2.34 million of additional annual revenues.

Major changes in our financial position from December 31, 2003 to March 31, 2004 are discussed below.

- Retained earnings decreased from \$13.18 million at the end of 2003 to \$12.64 million at March 31, 2004 reflecting the Company's first quarter net loss of \$21,000 and common dividends paid of \$515,000 on March 1, 2004.

- The \$591,000 decrease in "Accounts payable" from the end of 2003 to March 31, 2004 is primarily attributable to the payment of outstanding invoices due to various contractors for capital project work completed last year.

Critical Accounting Policies, Significant Estimates and Judgments

The Company has identified the accounting policies below as those policies critical to its business operations and the understanding of the results of operations. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Changes in the estimates or other judgments included within these accounting policies could result in significant changes to the financial statements. Our critical accounting policies are as follows.

Regulatory Accounting - the use of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards No. 71 ("SFAS 71"), *"Accounting for the Effects of Certain Types of Regulation"* stipulates generally accepted accounting principles for companies whose rates are established by or are subject to approval by an independent third-party regulator. In accordance with SFAS No. 71, we defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in rates charged to our water utilities' customers. In the event that the inclusion in the rate-making process is disallowed, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

Revenue Recognition - utility revenues are based on authorized rates approved by the NHPUC. Estimates of water utility revenues for water delivered to customers but not yet billed are accrued at the end of each accounting period. The Company reads its residential customer meters generally on a quarterly basis and records its revenue based on meter reading results. Unbilled revenues from the last meter-reading date to the end of the accounting period are estimated based on historical usage patterns and the effective water rates. The estimate of the unbilled revenue is a management estimate utilizing certain sets of assumptions and conditions. Actual results could differ from those estimates.

The Company's non-utility revenues are recognized when services are rendered or when water is delivered. Revenues are based, for the most part, on long-term contractual rates.

Pension and Other Post Retirement Benefits - the Company's pension and other postretirement benefits costs are dependent upon several factors and assumptions, such as employee demographics, plan design, the level of cash contributions made to the plans, earnings on the plans' assets, the discount rate, the expected long-term rate of return on the plans' assets and health care cost trends.

In accordance with SFAS No. 87, *"Employers Accounting for Pensions"* ("SFAS 87") and SFAS No. 106, *"Employers Accounting for Postretirement Benefits Other than Pensions"* ("SFAS 106"), changes in pension and postretirement benefit obligations other than pensions ("PBOP") associated with these factors may not be immediately recognized as pension and PBOP costs in the statements of income, but generally are recognized in future years over the remaining average service period of the plans' participants.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has entered into two interest rate swap agreements at a fixed rate of 6.5% in order to mitigate interest rate risks associated with its floating-rate loans. The agreements provide for the exchange of fixed interest rate payments for floating interest rate payment obligations on notional amounts of principal totaling $6,000,000. The Company has designated these interest rate swaps as a cash flow hedge against the variable future cash flows associated with the interest payments due on $6,000,000 of notes. As of March 31, 2004, the Company has recorded a liability of approximately $298,000 in "Other liabilities and deferred credits" associated with these swap agreements with the offsetting amount in "Accumulated other comprehensive income" in the accompanying Condensed Consolidated Balance Sheets.

The fair market value of the Company's interest rate swaps represents the estimated unrealized loss to terminate these agreements based upon current interest rates.

Item 4: CONTROLS AND PROCEDURES

We carried out an evaluation required by Rule 13a-15(b) of the Securities Exchange Act of 1934 under the supervision and with the participation of our management, including the principal executive officer and the principal financial officer, of the effectiveness of the design and operation of our "disclosure controls and procedures" as of the end of the period covered by this report.

Disclosure controls and procedures are designed with the objective of ensuring that (i) information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) information is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Based on their evaluation, the principal executive officer and the principal financial officer have concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective to provide reasonable assurance that information relating to the Company (including our consolidated subsidiaries) required to be included in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms.

There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company has been informed by the Securities and Exchange Commission and the New Hampshire Bureau of Securities Regulation that it is the subject of related investigations by each regulator as discussed in greater detail in "Note 5 – Commitments and Contingencies – Regulatory Investigations" to the Notes to Condensed Consolidated Financial Statements.

Further, eminent domain proceedings have been commenced before the New Hampshire Public Utilities Commission ("NHPUC") against certain of the Company's water utility subsidiaries, and the Company and such subsidiaries are engaged in litigation with respect thereto as discussed in greater detail in "Note 5 – Commitments and Contingencies – Eminent Domain" to the Notes to Condensed Consolidated Financial Statements.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K:

(a) The following exhibits are filed as part of this report:

Exhibit Number	**Exhibit Description**
10.17	Amendment Agreement dated as of March 29, 2004 to Revolving Line of Credit Loan Agreement dated October 2, 1991, as amended, between Pennichuck Corporation as borrower, Pennichuck Water Works, Inc. as limited guarantor, The Southwood Corporation and Pennichuck Water Service Corporation as guarantors, and Fleet National Bank (Filed as Exhibit 10.17 to this report on Form 10-Q).
10.18	Amendment Agreement dated March 29, 2004 to Loan Agreement dated April 8, 1998, as amended, between Pennichuck Corporation and Pennichuck East Utility, Inc., as borrowers, The Southwood Corporation and Pennichuck Water Service Corporation as guarantors, and Fleet National Bank (Filed as Exhibit 10.18 to this report on Form 10-Q)
31.1	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 31.1 to this report on Form 10-Q)
31.2	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 31.2 to this report on Form 10-Q)
32.1	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 32.1 to this report on Form 10-Q)
32.2	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 32.2 to this report on Form 10-Q)

(b) Reports on Form 8-K: The following reports were filed by the Company on Form 8-K during the first quarter of 2004:

1. Current Report on Form 8-K dated February 4, 2004 under the caption "Item 5. Other Events and Regulation FD Disclosure."

2. Current Report on Form 8-K dated February 24, 2004 under the caption "Item 12. Results of Operations and Financial Condition."

3. Current Report on Form 8-K dated March 15, 2004 under the caption "Item 5. Other Events and Regulation FD Disclosure."

4. Current Report on Form 8-K dated March 26, 2004 under the caption "Item 5. Other Events and Regulation FD Disclosure."

SIGNATURES

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

Pennichuck Corporation
(Registrant)

Date: May 14, 2004

/s/ Donald L. Correll
Donald L. Correll, President and
Principal Executive Officer

Date: May 14, 2004

/s/ Charles J. Staab
Charles J. Staab, Vice President,
Treasurer and Principal Financial
Officer

AMENDMENT AGREEMENT

This Amendment Agreement ("Agreement") is entered into as of the 29th day of March, 2004, by and among PENNICHUCK CORPORATION, a New Hampshire corporation with a principal place of business at 4 Water Street, Nashua, New Hampshire 03060 (the "Borrower"), PENNICHUCK WATER WORKS, INC., a New Hampshire corporation with a principal place of business at 4 Water Street, Nashua, New Hampshire 03060 ("PWW"), THE SOUTHWOOD CORPORATION, a New Hampshire corporation with a principal place of business at 4 Water Street, Nashua, New Hampshire 03060 ("Southwood") and PENNICHUCK WATER SERVICE CORPORATION, a New Hampshire corporation with a principal place of business at 4 Water Street, Nashua, New Hampshire 03060 ("PWSC") (PWW, Southwood and PWSC are referred to individually and collectively as the "Guarantor"), and FLEET NATIONAL BANK, a national bank organized under the laws of the United States with a place of business at 1155 Elm Street, Manchester, New Hampshire 03101.

WITNESSETH:

WHEREAS, the Bank and the Borrower entered into a Loan Agreement dated October 2, 1991 establishing a Revolving Line of Credit Loan (the "Loan" or the "Line of Credit") in the amount up to $2,500,000 in favor of the Borrower, as amended and modified by agreements dated on or about June 4, 1993, March 23, 1994, May 4, 1995, July 31, 1996, March 18, 1998 and August 24, 1999 (the "Loan Agreement");

WHEREAS, PWW executed a Limited Guaranty Agreement dated as of March 23, 1994, as amended and ratified, in which it guaranteed the payment of the Loan as governed by and limited in said Limited Guaranty Agreement (the "Limited Guaranty Agreement");

WHEREAS, the parties have executed certain documents and instruments in connection with the Loan (collectively the "Loan Documents"); and

WHEREAS, the Borrower, the Guarantor and the Bank have agreed to amend the Loan Documents to, among other things, (i) increase the maximum principal amount available under the Line of Credit; (ii) extend the next Renewal Date for the Line of Credit to April 8, 2005; (iii) modify certain financial covenants; (iv) provide for guarantees from the Borrower's subsidiaries, Southwood and PWSC, under the Loan Documents; and (v) amend the Loan Documents in certain other respects.

NOW, THEREFORE, in consideration of the foregoing and mutual covenants and agreements therein contained, the receipt and adequacy of which is hereby acknowledged, the parties covenant, stipulate and agree as follows:

1. Representations and Warranties of the Borrower and the Guarantor. Each of the Borrower and the Guarantor represents and warrants to the Bank as follows:

(a) The representations, warranties and covenants of the Borrower and the Guarantor made in the Loan Documents remain true and accurate and are hereby reaffirmed as of the date hereof.

(b) Each of the Borrower and the Guarantor has performed, in all material respects, all obligations to be performed by it to date under the Loan Documents and no event of default exists thereunder.

(c) Each of the Borrower and the Guarantor is a corporation duly organized, qualified and existing in good standing under the laws of the State of New Hampshire and is duly qualified to do business in all jurisdictions in which the character of the property owned by or the nature of its activities causes such qualification to be necessary.

(d) The execution, delivery and performance of this Agreement and the documents relating hereto (the "Amendment Documents") are within the power of the Borrower and the Guarantor and are not in contravention of law, of either of the Borrower's or the Guarantor's Articles of Incorporation, By-laws or the terms of any other documents, agreements or undertaking to which either the Borrower or the Guarantor is a party or by which either the Borrower or the Guarantor is bound. No approval of any person, corporation, governmental body or other entity not provided herewith is a prerequisite to the execution, delivery and performance by the Borrower or the Guarantor of the Amendment Documents or any of the documents submitted to the Bank in connection with the Amendment Documents, or upon execution by the Bank to ensure the validity or enforceability thereof.

(e) When executed on behalf of the Borrower and the Guarantor, the Amendment Documents will constitute the legally binding obligations of the Borrower and the Guarantor, enforceable in accordance with their terms; provided, that the enforceability of any provisions in the Amendment Documents, or of any rights granted to the Bank pursuant thereto may be subject to and affected by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the rights of creditors generally and that the right of the Bank to specifically enforce any provisions of the Amendment Documents is subject to general principles of equity.

2. Amendment to Loan Agreement. The Loan Agreement is hereby amended as follows:

(a) The Loan Agreement is hereby amended by deleting the amount "Two Million Five Hundred Thousand Dollars ($2,500,000)" appearing in the fifth and sixth lines of Article IIA and replacing the amount with "Six Million Five Hundred Thousand Dollars ($6,500,000)."

(b) The phrase "June 30, 2001" appearing in the tenth and eleventh lines of Article II C of the Loan Agreement is hereby deleted and replaced with "April 8, 2005".

(c) Article VIII of the Loan Agreement is hereby amended by inserting the following new Paragraph O at the end of said Article VIII:

"O. The Borrower hereby agrees to maintain or achieve those certain financial covenants, ratios or measures as set forth in Section 4.18 of Article IV of a certain Loan Agreement dated April 8, 1998, as amended and as it may hereafter be amended, by and among the Borrower, Pennichuck East Utility, Inc. and the Bank (the "1998 Loan Agreement"). The terms of Section 4.18 of Article IV of said 1998 Loan Agreement are herein incorporated by reference."

(d) Paragraph A of Article XII of the Loan Agreement is hereby amended by deleting the first and second sentences thereof and replacing them with the following:

> "This Agreement and the Loan Documents together are intended by the parties as the final, complete and exclusive statement of the transactions evidenced by this Agreement

and Loan Document. All prior or contemporaneous promises, agreements and understandings, whether oral or written, are deemed to be superceded by the Loan Documents, and no party is relying on any promise, agreement or understanding not set forth in the Loan Documents. The Loan Documents may not be amended or modified except by a written instrument describing such amendment or modification executed by Borrower and Bank."

(e) Paragraph R of Article XII of the Loan Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

"R. Payments. (1) All payments required under this Agreement, the Note or any other Loan Documents shall be made by the Borrower to the Bank at 1155 Elm Street, Manchester, New Hampshire or such other place as the Bank may from time to time specify in writing in lawful currency of the United States of America in immediately available funds, without counterclaim, or setoff and free and clear of, and without any deduction or withholding for any taxes or other payments.

(2) The Following Business Day Convention shall be used to adjust any relevant date if that date would otherwise fall on a day that is not a Business Day. For the purposes herein, the term Following Business Day Convention shall mean that an adjustment will be made if any relevant date would otherwise fall on a day that is not a Business Day so that the date will be the first following day that is a Business Day. "Business Day" means, in respect of any date that is specified in this Loan Agreement or any Loan Document to be subject to adjustment in accordance with the Following Business Day Convention, a day on which commercial banks settle payments in (i) London, if the payment obligation is calculated by reference to the LIBOR Rate, or (ii) New York, if payment obligation is calculated by reference to Prime Rate or COF Rate. All payments under any Loan Documents hereunder shall be adjusted in accordance with the Following Business Day Convention.

(3) All payments under the Loan Documents shall be applied first to the payment of all fees, expenses and other amounts due to the Bank (excluding principal and interest), then to accrued interest, and the balance on account of outstanding principal; provided, however, that after demand with regard to the Line of Credit, payments will be applied to the obligations of Borrower to Bank as Bank determines in its sole discretion."

(f) Paragraph T of Article XII of the Loan Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

"This Agreement and the Loan Documents shall be construed and their provisions interpreted under and in accordance with the laws of the State of New Hampshire (excluding the laws applicable to conflicts or choice of law). The Borrower and the Guarantor, to the extent they may legally do so, hereby consent to the jurisdiction of the courts of the State of New Hampshire and the United States District Court for the State of New Hampshire, as well as to the jurisdiction of all courts from which an appeal may be taken from such courts for the purpose of any suit, action or other proceeding arising out of any of their obligations hereunder or with respect to the transactions contemplated hereby, and expressly waive any and all objections they may have to venue in any such courts. THE BORROWER, THE GUARANTOR AND THE BANK MUTUALLY

HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENTS CONTEMPLATED TO BE EXECUTED IN CONNECTION HEREWITH OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF THE BANK RELATING TO THE ADMINISTRATION OF THE LOAN OR ENFORCEMENT OF THE LOAN DOCUMENTS, AND AGREE THAT NEITHER PARTY WILL SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. EXCEPT AS PROHIBITED BY LAW, BORROWER HEREBY WAIVES ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION ANY SPECIAL, EXEMPLARY, ENHANCED COMPENSATORY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. THE BORROWER AND THE GUARANTORS CERTIFY THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF BANK HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR BANK TO ACCEPT THIS AGREEMENT AND MAKE THE LOAN."

(g) Cross Payout. The parties hereto expressly acknowledge and agree that Borrower's obligations to the Bank with respect to the Line of Credit are coterminous with the Borrower's obligations under the 1998 Loan Agreement and related loan documents. If the Borrower ceases to maintain its obligations to the Bank under the 1998 Loan Agreement and the related loan documents or the Borrower chooses to change its primary banking relationship to a bank other than the Bank, then all amounts due under the Line of Credit as well as all other loans and other extensions of credit from the Bank to the Borrower shall be immediately due and payable in full. If the Borrower ceases to maintain its obligations to the Bank under the Loan Agreement and the related loan documents or the Borrower chooses to change its primary banking relationship to a bank other than the Bank, then all amounts due under the 1998 Loan Agreement and the related loan documents as well as all other loans and other extensions of credit from the Bank to the Borrower shall be immediately due and payable in full.

3. Amendment to Amended and Restated Revolving Credit Promissory Note. The Amended and Restated Revolving Promissory Note dated March 23, 1994, as amended, made payable by the Borrower to the Bank in the principal amount of $2,500,000 (the "Note") is hereby further amended as follows:

(a) The maximum principal amount of the Note is hereby increased to Six Million Five Hundred Thousand Dollars ($6,500,000).

(b) The seventh and eighth paragraphs of the Note (as modified by amendment dated March 18, 1998) are hereby deleted and replaced with the following:

"LIBOR RATE" shall mean the rate per annum as determined on the basis of the offered rates for deposits in U.S. dollars, for a period of time comparable to the applicable LIBOR Rate Interest Period, which appears on the Telerate page 3750 as of 11:00 a.m. London time on the day that is two (2) London Banking Days preceding the first day of such LIBOR Rate Interest Period; provided, however, if the rate described above does not appear on the Telerate System on any applicable interest determination date, the

LIBOR Rate shall be the rate (rounded upwards, if necessary, to the nearest one hundred thousandth of a percentage point), determined on the basis of the offered rates for deposits in U.S. dollars for a period of time comparable to such LIBOR Rate Interest Period which are offered by four major banks in the London interbank market at approximately 11:00 a.m. London time, on the day that is two (2) London Banking Days preceding the first day of such LIBOR Loan as selected by Bank. The principal London office of each of the four major London banks will be requested to provide a quotation of its U.S. Dollar deposit offered rate. If at least two such quotations are provided, the rate for that date will be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate for that date will be determined on the basis of the rates quoted for loans in U.S. dollars to leading European banks for a period of time comparable to such LIBOR Loan offered by major banks in New York City at approximately 11:00 a.m. New York City time, on the day that is two London Banking Days preceding the first day of such LIBOR Rate Interest Period. In the event that the Bank is unable to obtain any such quotation as provided above, it will be deemed that LIBOR Rate cannot be determined. In the event that the Board of Governors of the Federal Reserve System shall impose a Reserve Percentage with respect to LIBOR deposits of Bank then for any period during which such Reserve Percentage shall apply, LIBOR Rate shall be equal to the amount determined above divided by an amount equal to 1 minus the Reserve Percentage. "Reserve Percentage" shall mean the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed on member banks of the Federal Reserve System against "Euro-currency Liabilities" as defined in Regulation D. Banking Day shall mean, in respect of any city, any day on which commercial banks are open for business in that city."

(c) The phrase "two percent (2%)" appearing in the second full paragraph on page four of the Note is hereby deleted and replaced by "four percent (4%)".

(d) All other terms and conditions of the Note except as amended hereby, are ratified and confirmed.

4. Guarantor Consent. By execution hereof, the Guarantor consents to this Agreement and the transactions contemplated hereby and acknowledges and agrees that its guaranty under the Limited Guaranty Agreement applies to all amounts advanced or to be advanced under the Loan Agreement, the Note and all Loan Documents, as amended, in accordance with the terms of the Limited Guaranty Agreement. Southwood and PWSC hereby agree to execute a Guaranty Agreement in favor of the Bank substantially in the form attached hereto as Exhibit A (collectively, the "Subsidiary Guaranties").

5. Conditions Precedent. The obligations of the Bank hereunder are subject to delivery by the Borrower and the Guarantor to the Bank of this Agreement, the Subsidiary Guaranties and all other documents set forth on the Closing Agenda attached hereto as Exhibit B.

6. Loan Documents. The Borrower and the Guarantor shall deliver this Agreement to the Bank and this Agreement shall be included in the term "the Loan Documents" in the Loan Agreement. The collateral granted to the Bank therein, including without limitation, the Limited Guaranty Agreement, shall continue to secure the Loan as set forth in the Loan Documents, as amended hereby.

7. Future References. All references to the Loan Documents shall hereinafter refer to such documents as amended.

8. Continuing Effect. The provisions of the Loan Document, as modified herein, shall remain in full force and effect in accordance with their terms and are hereby ratified and confirmed.

9. General. (a) The Borrower and the Guarantor shall execute and deliver such additional documents and do such other acts as the Bank may reasonably require to implement the intent of this Agreement fully.

(b) The Borrower shall pay all costs and expenses, including, but not limited to, attorneys' fees incurred by the Bank in connection with this Agreement. The Bank, at its option, but without any obligation to do so, may advance funds to pay any such costs and expenses that are the obligation of the Borrower and all such funds advanced shall bear interest at the highest rate provided in the Loan Documents.

(c) This Agreement may be executed in several counterparts by the Borrower, the Bank and any obligor or guarantor of the Loan Agreement, each of which shall be deemed an original but all of which together shall constitute one and the same Agreement.

IN WITNESS WHEREOF, the Bank, the Borrower and the Guarantor have executed this agreement by their duly authorized officers as of the date set forth above.

FLEET NATIONAL BANK

/s/ Camille Holton DiCroce
Witness

By: /s/ John B. DeBaun
John B. DeBaun, Its Duly
Authorized Vice President

PENNICHUCK CORPORATION

/s/ John B. DeBaun
Witness

By: /s/ Charles J. Staab
Charles J. Staab, Its Duly
Authorized Vice President

PENNICHUCK WATER WORKS, INC.

/s/ John B. DeBaun
Witness

By: /s/ Charles J. Staab
Charles J. Staab, Its Duly
Authorized Vice President

THE SOUTHWOOD CORPORATION

/s/ John B. DeBaun
Witness

By: /s/ Charles J. Staab
Charles J. Staab, Its Duly
Authorized Vice President

PENNICHUCK WATER SERVICE CORPORATION

/s/ John B. DeBaun
Witness

By: /s/ Charles J. Staab
Charles J. Staab, Its Duly
Authorized Vice President

Exhibit 10.18

March 29, 2004

Pennichuck Corporation
4 Water Street
Nashua, New Hampshire 03060

Pennichuck East Utility, Inc.
4 Water Street
Nashua, New Hampshire 03061-0448

The Southwood Corporation
4 Water Street
Nashua, New Hampshire 03061-0448

Pennichuck Water Service Corporation
4 Water Street
Nashua, New Hampshire 03061-0448

Re: $4,500,000 Line of Credit Loan from Fleet National Bank (the "Bank") to Pennichuck Corporation and Pennichuck East Utility, Inc. (collectively, the "Borrowers") and a $4,500,000 Loan from the Bank to Pennichuck Corporation, all of which Loans are guaranteed by The Southwood Corporation and Pennichuck Water Service Corporation (collectively, the "Guarantors")

Gentlemen:

Reference is hereby made to that certain $4,500,000 Acquisition Line of Credit Loan provided to the Borrowers from the Bank and that certain $4,500,000 Line of Credit Loan provided to Pennichuck Corporation from the Bank pursuant to the terms and conditions of a certain Loan Agreement by and between the Bank and the Borrowers dated as of April 8, 1998, as amended (the "Loan Agreement"), and those certain documents and instruments executed and/or delivered in connection therewith (all of the foregoing, including without limitation, the Loan Agreement, as the same may have been and may hereafter be amended, modified or restated, are hereinafter referred to as the "Loan Documents").

Notwithstanding the provisions of the Loan Agreement and the other Loan Documents, it is agreed, effective immediately, that the Loan Documents shall be amended as follows:

1. The phrase "Twelve Million Five Hundred Thousand Dollars ($12,500,000)" appearing in paragraph (a) of Section 4.18 of Article IV of the Loan Agreement is hereby deleted and replaced by the following phrase: "Twenty Million Dollars ($20,000,000)".

2. The parties hereto expressly acknowledge and agree that the Borrowers' obligations to the Bank with respect to the Acquisition Line of Credit and the Line of Credit are all coterminous with the Borrowers' obligations under that certain Loan Agreement dated as of October 2, 1991, as amended, by and among the Borrowers, the Bank and the Guarantors (the "1991 Loan Agreement") and the related loan documents. If Pennichuck Corporation ceases to maintain its

obligations to the Bank under the 1991 Loan Agreement and the related loan documents or if Pennichuck Corporation chooses to change its primary banking relationship to a bank other than the Bank, then all amounts due under the Acquisition Line of Credit and the Line of Credit, as well as all other loans and extensions of credit from the Bank to the Borrowers shall immediately be due and payable in full. If the Borrowers cease to maintain their obligations to the Bank under the Loan Agreement and the related loan documents or the Borrowers choose to change their primary banking relationship to a bank other than the Bank, then all amounts due and payable under the 1991 Loan Agreement and the related loan documents, as well as all other loans and extensions of credit from the Bank to the Borrowers shall be immediately due and payable in full.

3. All other terms and conditions of the Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

This Letter Agreement shall constitute an amendment to the terms and conditions of each of the Loan Documents and shall be governed by the laws of the State of New Hampshire.

Please sign below to indicate your agreement with the above.

Very truly yours,

FLEET NATIONAL BANK

By: /s/ John B. DeBaun
John B. DeBaun, Vice President

Agreed and Consented To:

PENNICHUCK CORPORATION

/s/ John B. DeBaun
Witness

By: /s/ Charles J. Staab
Charles J. Staab, Its Duly
Authorized Vice President

PENNICHUCK EAST UTILITY, INC.

/s/ John B. DeBaun
Witness

By: /s/ Charles J. Staab
Charles J. Staab, Its Duly
Authorized Vice President

THE SOUTHWOOD CORPORATION

/s/ John B. DeBaun
Witness

By: /s/ Charles J. Staab
Charles J. Staab, Its Duly
Authorized Vice President

PENNICHUCK WATER SERVICE CORPORATION

/s/ John B. DeBaun
Witness

By: /s/ Charles J. Staab
Charles J. Staab, Its Duly
Authorized Vice President

Exhibit 31.1

SECTION 302 CERTIFICATION OF THE PRESIDENT AND PRINCIPAL EXECUTIVE OFFICER

I, Donald L. Correll, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pennichuck Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by thisreport;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2004

/s/ Donald L. Correll
Donald L. Correll, President and
Principal Executive Officer

Exhibit 31.2

SECTION 302 CERTIFICATION OF THE VICE PRESIDENT, TREASURER AND PRINCIPAL FINANCIAL OFFICER

I, Charles J. Staab, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pennichuck Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2004

/s/ Charles J. Staab
Charles J. Staab, Vice President, Treasurer and
Principal Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 of Pennichuck Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald L. Correll, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.

Date: May 14, 2004

/s/ Donald L. Correll
Name: Donald L. Correll
Title: President and Chief Executive Officer

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 of Pennichuck Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles J. Staab, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.2 is expressly and specifically incorporated by reference in any such filing.

Date: May 14, 2004

/s/ Charles J. Staab
Name: Charles J. Staab
Title: Vice President, Treasurer and
Chief Financial Officer

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

FORM 10-Q

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2004

OR

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

Commission File Number 0-18552

PENNICHUCK

PENNICHUCK CORPORATION

(Exact name of registrant as specified in its charter)

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

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

4 Water Street
Nashua, New Hampshire 03061
(Former address of principal executive offices)

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 __X__ NO ______

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
YES ______ NO __X__

The number of shares of the registrant's common stock, $1 par value, outstanding as of August 11, 2004 was 2,396,340.

PENNICHUCK CORPORATION AND SUBSIDIARIES
FORM 10-Q
June 30, 2004

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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	June 30, 2004 (Unaudited)	December 31, 2003
ASSETS		
Property, plant and equipment	$116,797	$115,486
Less accumulated depreciation	(30,384)	(29,759)
Net property, plant and equipment	86,413	85,727
Assets held for sale	730	-----
Current Assets		
Cash and cash equivalents	11	391
Accounts receivable, net of allowance of $37 in 2004 and 2003	3,480	2,995
Refundable income taxes	1,569	1,145
Materials and supplies, at cost	834	726
Prepaid expenses and other current assets	944	519
	6,838	5,776
Other Assets		
Deferred land costs	915	849
Deferred charges and other assets	3,691	3,634
Note receivable	1,224	1,224
	5,830	5,707
TOTAL ASSETS	$99,811	$97,210
STOCKHOLDERS' EQUITY AND LIABILITIES		
Stockholders' Equity		
Common stock - $1 par value; authorized – 11,500,000 shares Issued - 2,397,292 and 2,397,092 shares, respectively	$2,397	$2,397
Additional paid in capital	15,211	15,208
Retained earnings	12,341	13,178
Accumulated other comprehensive income	(381)	(473)
Less treasury stock, at cost; 952 shares	(138)	(138)
	29,430	30,172
Minority interest	7	8
Long-term debt, less current portion	17,363	26,879
Current Liabilities		
Line of credit	3,250	2,000
Current portion of long-term debt	9,868	368
Cash overdraft	952	-----
Accounts payable	472	913
Accrued interest payable	371	370
Other accrued liabilities	2,040	1,773
	16,953	5,424
Deferred Credits and Other Reserves		
Contributions in aid of construction	22,117	21,895
Deferred income taxes	9,603	8,552
Deferred gain on land sale	1,224	1,224
Other liabilities and deferred credits	3,114	3,056
TOTAL STOCKHOLDERS' EQUITY & LIABILITIES	$99,811	$97,210

See notes to condensed consolidated financial statements

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except share and per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Revenues				
Water utility operations	$4,888	$4,567	$9,108	$8,619
Real estate operations	22	277	124	729
Contract operations	482	390	945	734
Other	20	28	33	40
	5,412	5,262	10,210	10,122
Operating Expenses				
Water utility operations	3,621	3,490	7,246	6,867
Real estate operations	43	17	81	40
Contract operations	464	375	836	648
Other	-----	5	21	-----
	4,128	3,887	8,184	7,555
Operating Income	1,284	1,375	2,026	2,567
Eminent domain taking and other expenses	(447)	(205)	(736)	(689)
Other income	11	16	5	28
Interest expense	(506)	(489)	(1,001)	(979)
Income Before Provision for Income Taxes	342	697	294	927
Provision for Income Taxes	127	270	100	354
Net Income Before Minority Interest	215	427	194	573
Minority Interest in (Earnings) of Westwood Park LLC, net of tax	-----	(34)	-----	(34)
Net Income	$215	$393	$194	$539
Earnings per Common Share:				
Basic	$.09	$.16	$.08	$.23
Diluted	$.09	$.16	$.08	$.22
Weighted Average Common Shares Outstanding:				
Basic	2,396,340	2,391,439	2,396,296	2,391,439
Diluted	2,409,625	2,398,824	2,412,448	2,398,748
Dividends Paid per Common Share	$.215	$.215	$.43	$.41

See notes to condensed consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Six Months Ended	
	June 30, 2004	June 30, 2003
Operating Activities:		
Net income	$194	$539
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,536	1,408
Gain on sale of land	-----	(260)
Amortization of deferred investment tax credits	(17)	(17)
Provision for deferred income taxes	990	90
Change in other assets and liabilities	(1,515)	(195)
Net cash provided by operating activities	1,188	1,565
Investing Activities:		
Purchases of property, plant & equipment	(2,615)	(3,153)
Contributions in aid of construction	55	97
Decrease in restricted cash	-----	151
Proceeds from sale of land, net	-----	260
Net change in investment in real estate partnerships and deferred land costs	(166)	(125)
Net cash used in investing activities	(2,726)	(2,770)
Financing Activities:		
Advances on line of credit	1,250	-----
Payments on long-term debt	(80)	(80)
Proceeds from long-term borrowings	63	196
Net change in cash overdrafts	952	-----
Net decrease in notes receivable	-----	605
Proceeds from issuance of common stock	3	6
Dividends paid	(1,030)	(981)
Net cash provided by (used in) financing activities	1,158	(254)
DECREASE IN CASH AND CASH EQUIVALENTS	(380)	(1,459)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	391	2,444
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$11	$985

Supplemental Cash Flow Information. Interest paid was approximately $979,000 and $1,038,000 for the six months ended June 30, 2004 and 2003, respectively. Income taxes paid were approximately $4,000 for the six months ended June 30, 2004. No income taxes were paid during the six months ended June 30, 2003. Non-cash items for the six months ended June 30, 2004 and 2003 included contributions in aid of construction totaling approximately $355,000 and $304,000, respectively. Additionally, non-cash items for the six months ended June 30, 2003 included the deferred gain on a land sale of approximately $1.2 million and the related long-term note receivable as discussed in Note 6 of the Notes to Condensed Consolidated Financial Statements.

See notes to condensed consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
June 30, 2004

Note 1 – Background

These financial statements include the accounts of Pennichuck Corporation (the "Company") and its wholly-owned subsidiaries, Pennichuck Water Works, Inc. ("Pennichuck"), Pittsfield Aqueduct Company, Inc. ("Pittsfield"), Pennichuck East Utility, Inc. ("Pennichuck East"), The Southwood Corporation ("Southwood") and Pennichuck Water Service Corporation (the "Service Corporation"). The financial statements also include the accounts of Westwood Park LLC ("Westwood") in which Southwood owns a 60% majority interest. All significant intercompany accounts have been eliminated in consolidation.

Certain amounts for the six months ended June 30, 2003 have been reclassified to conform with the 2004 financial statement presentation. These reclassifications had no effect on net income and relate primarily to the reclassification of certain customer payments on a note receivable from "net cash provided by operating activities" to "net cash provided by (used in) financing activities" in the Condensed Consolidated Statements of Cash Flows.

Note 2 – Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-Q and Regulation S-X pertaining to interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. The Balance Sheet amounts shown under the December 31, 2003 column have been derived from the audited financial statements of the Company as contained in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

(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) *Stock-Based Compensation*

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148, *"Accounting for Stock-Based Compensation - Transition and*

Disclosure - an amendment to FASB Statement No. 123" ("SFAS 148") which provides for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires prominent disclosures in both interim and annual financial statements about the method of accounting for stock-based employee compensation. At this time, the Company does not intend to change to the fair value based method of accounting for stock-based compensation. On a pro forma basis, the Company's net income and earnings per share would have been reduced to the following amounts had compensation cost for the plan been determined consistent with SFAS No. 123, *"Accounting for Stock-Based Compensation"*.

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
	(In thousands, except per share data)			
Net income:				
As reported	$ 215	$ 393	$ 194	$ 539
Less:				
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related taxes	(9)	-	(209)	-
Pro forma net income (loss)	$ 206	$ 393	$ (15)	$ 539
Basic net income (loss) per share:				
As reported	$ 0.09	$ 0.16	$ 0.08	$ 0.23
Pro forma	$ 0.09	$ 0.16	$ (0.01)	$ 0.23
Diluted net income (loss) per share:				
As reported	$ 0.09	$ 0.16	$ 0.08	$ 0.22
Pro forma	$ 0.09	$ 0.16	$ (0.01)	$ 0.22

Note 3 – New Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, *"Consolidation of Variable Interest Entities"*, as amended and revised in December 2003 ("FIN 46R"), which addresses the consolidation of variable interest entities ("VIE"s) by business enterprises that are the primary beneficiaries. A VIE is an entity that does not have sufficient equity investment at risk to permit it to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest. The primary beneficiary of a VIE is the enterprise with the majority of the risks or rewards associated with the VIE. Application of this Interpretation is required for all potential VIEs that are referred to as special-purpose entities for periods ending after December 15, 2003 and, for all other types of entities that are potential VIEs that are not referred to as special purpose entities, the consolidation requirements apply for periods ending after March 15, 2004. The Company has assessed the impact of FIN 46R and has determined that it does not have any VIEs for which the Company is the primary beneficiary requiring consolidation of the entity as of June 30, 2004.

The Emerging Issues Task Force ("EITF") of the FASB issued EITF No. 03-6 on February 9, 2004. EITF No. 03-6 requires that earnings used to calculate earnings per share be allocated between common shareholders and other securities based on their respective rights to receive dividends. This requirement was effective for the second quarter of 2004. It had no impact on the Company's calculation of earnings per share.

Note 4 – Benefit Plans

Pension Plan

The Company sponsors a non-contributory, defined benefit pension plan (the "Plan") that covers substantially all full-time employees. The benefits are formula-based, giving consideration to both past and future service as well as participant compensation levels. The Company's funding policy is to contribute annually allowable amounts deductible for federal tax purposes. 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. There were no contributions to the Plan during the three and six months ended June 30, 2004. The Company anticipates that it will contribute at least the minimum funding requirement of approximately $240,000 to the Plan in 2004.

Effective for the quarter ended March 31, 2004, SFAS No. 132R, *"Employers' Disclosures about Pension and Other Postretirement Benefits"*, requires disclosure of the net periodic pension and postretirement benefit cost. Components of net periodic pension benefit cost were as follows:

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
	($000's)			
Service cost	$ 59	$ 39	$ 135	$ 79
Interest cost	70	53	158	107
Expected return on plan assets	(78)	(49)	(177)	(99)
Amortization of prior service cost	-	-	-	-
Amortization of transition asset	(4)	(2)	(8)	(5)
Recognized net actuarial loss	11	12	25	24
Net periodic benefit cost	$ 58	$ 53	$ 133	$ 106

Other Post-employment Benefits

The Company also provides post-retirement medical benefits to current and retired employees through separate post-retirement medical plans for its union and non-union employees. These benefits include health insurance coverage and reimbursement of certain Medicare premiums for certain retirees. Additionally, in 2003, the Company began offering, through a separate plan, post-employment medical benefits for employees who retire prior to their normal retirement age and who have met certain age and service requirements. The benefits under this plan allow continuity of coverage at group rates from the employee's retirement date until the employee becomes eligible for Medicare.

There were no contributions to these Plans during the three and six months ended June 30, 2004. The Company anticipates that it will contribute approximately $75,000 for these benefits in 2004.

Components of net periodic post-retirement and post-employment benefit costs were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	($000's)			
Service cost	$ 32	$ 13	$ 57	$ 26
Interest cost	29	14	51	30
Expected return on plan assets	(13)	(4)	(23)	(9)
Amortization of prior service cost	9	3	15	6
Amortization of transition asset	-	-	-	-
Recognized net actuarial loss	6	2	11	4
Net periodic benefit cost	$ 63	$ 28	$ 111	$ 57

The net periodic pension and other post-retirement benefit costs for the six months ended June 30, 2004 were estimated based on the latest available participant census data. A full actuarial valuation will be completed during the third quarter. At that time, the cost amounts will be adjusted based on the actual actuarial study results.

In December 2003, the FASB issued Staff Position (FSP) 106-1, *"Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"* (the "Act"). The Act provides for prescription drug benefits for retirees over the age of 65 under a new Medicare Part D program. For employers like the Company, who currently provide retiree medical programs for former employees over the age of 65, there are potential subsidies available which are inherent in the Act. The Act potentially entitles these employers to a direct tax-exempt federal subsidy.

Pursuant to FSP 106-1, the Company has elected to defer recognition of the provisions of this Act until further accounting guidance is effective. As a result, the provisions of the Act are not reflected in this disclosure or in the accompanying Condensed Consolidated Financial Statements.

In May 2004, the FASB issued FSP 106-2. This FSP provides guidance on the accounting for the effects of the Act. The guidance indicates that, when an employer initially accounts for the subsidy, the effect on the accumulated postretirement benefit obligation should be accounted for as an actuarial gain (assuming no plan amendments are made). In addition, since the subsidy would affect the employer's share of its plan's costs, the subsidy is included in measuring the costs of benefits attributable to current service. Therefore, the subsidy should reduce service cost when it is recognized as a component of net periodic postretirement benefit cost. This FSP will be effective for the third quarter of 2004. The Company is evaluating the impact that the Act and this FSP will have on its financial position.

Note 5 – Commitments and Contingencies

Termination of Merger Agreement

On April 29, 2002, the Company entered into a definitive agreement with Philadelphia Suburban Corporation ("PSC") to merge into a wholly-owned subsidiary of PSC with shareholders of the Company receiving shares of PSC in the merger. The merger was subject to several conditions, including, among other things, approval by the shareholders of the Company and approval by the New Hampshire Public Utilities Commission ("NHPUC"). The review of the merger by the NHPUC and approval by the Company's shareholders was expected to occur in the first half of 2003.

However, on November 26, 2002, the Board of Aldermen of the City of Nashua, New Hampshire (the "City") adopted a resolution calling for a referendum to authorize the City to pursue the acquisition, by an eminent domain proceeding or otherwise, of all or a portion of Pennichuck's water system serving the residents of the City and others. The City's voters passed the referendum on January 14, 2003. On February 4, 2003, the Company announced that it had reached an agreement with PSC to terminate PSC's pending acquisition of the Company. The decision to terminate the merger agreement resulted from the City's ongoing efforts to acquire Pennichuck's utility plant and property by eminent domain. Expenses associated with the PSC merger transaction and related issues totaled approximately $231,000, consisting of legal and other fees relating to merger and regulatory approval, for the year ended December 31, 2003.

Under current Internal Revenue Code regulations, costs relating specifically to the merger transaction may be deductible for Federal income tax purposes in the year in which the merger is terminated. As a result, the Company realized approximately $1.5 million in tax-deductible merger-related costs for Federal income tax purposes in 2003.

Eminent Domain

The City formally notified the Company's utility subsidiaries (the "Utilities") on February 5, 2003 of its intention to acquire all or a portion of their plant and property. The notification letters from the City stated that it was acting pursuant to New Hampshire's utility municipalization statute, RSA Ch. 38. On March 25, 2003, the Utilities notified the City of their decision not to sell their plant and property. Under RSA Ch. 38, a municipality may seek the NHPUC's authorization to compel the sale of utility assets through an eminent domain proceeding if the utility does not agree to sell the assets voluntarily. By letter dated March 26, 2003, the City indicated its intent to pursue such an eminent domain proceeding. On February 4, 2004, the Company and the Utilities filed a Petition for Declaratory Judgment against the City, seeking a determination by the New Hampshire Superior Court that, among other things, RSA Ch. 38 is unconstitutional and that the City had failed to commence eminent domain proceedings at the NHPUC in a timely fashion and therefore is barred from continuing the current utility municipalization process against the Utilities.

On March 25, 2004, the City filed a petition with the NHPUC asking it to find that it is in the public interest for the City to take the Utilities' assets and requesting that the NHPUC set a price for those assets. On April 5, 2004, Pennichuck filed a Motion to Dismiss the City's petition, asking the NHPUC to dismiss Nashua's eminent domain petition on a number of grounds or, alternatively, to stay the proceeding pending the outcome of the Superior Court declaratory judgment case. The City subsequently filed an objection to Pennichuck's motion. On April 8, 2004, Pennichuck amended its declaratory judgment petition to ask the Superior Court to rule that the City does not have the authority under RSA Ch. 38 to take the assets of PEU and PAC, the two Pennichuck utility subsidiaries that do not provide service in Nashua, or those assets of PWW that are not necessary to provide service in the City. At the same time, Pennichuck also filed a Motion for Preliminary Injunction, asking the Superior Court to enjoin the City from proceeding with its case before the NHPUC for the same reasons which was denied on June 8, 2004. The City has sought dismissal of the Superior Court case, and Pennichuck has objected to the City's request. In addition, Pennichuck has requested that the court grant summary judgment on its claims that the municipalization statute is unconstitutional, that the City waited too long to file its municipalization case at the NHPUC, and that the City has no authority to take assets not necessary to provide water service within the City. The superior court heard oral arguments on both the City's and Pennichuck's motions on July 19, 2004, and a decision from the court is pending.

On April 20, 2004, Pennichuck filed a suit for damages against the City, seeking recovery of approximately \$5 to \$6 million on numerous grounds. The City subsequently removed the damages case to federal court and requested that the court dismiss the case, claiming that it does not have jurisdiction over the issues presented and that Pennichuck's suit fails to allege facts sufficient to sustain its claims for inverse condemnation, intentional interference with contract, and violation of New Hampshire's consumer protection law. Pennichuck has objected to the City's motion, and the parties are awaiting a ruling from the federal court on these issues. On July 28, 2004, the NHPUC heard oral arguments on Pennichuck's motion to dismiss the City's municipalization petition. The NHPUC took the matter under advisement.

On April 8, 2003, the Town of Pittsfield formally notified Pittsfield Aqueduct Company, Inc. that it wished to acquire the plant and property of that company. The letter indicated that the Town was providing its notification pursuant to the New Hampshire utility municipalization statute. By letter dated May 28, 2003, Pittsfield Aqueduct Company, Inc. notified the Town of Pittsfield of its decision not to sell its plant and property. To date, the Town of Pittsfield has not commenced an eminent domain proceeding at the NHPUC.

If the City of Nashua is allowed to proceed with its case before the NHPUC, and if the Town of Pittsfield files such a case, it is not certain whether either municipality would ultimately choose to complete the acquisition of any portion of the property of the Company's utility subsidiaries even if the NHPUC ultimately approved such an acquisition and established a price for it. The Company cannot predict the ultimate outcome of these matters. It is possible that, if the acquisition efforts of the City and/or the Town of Pittsfield are successful, the financial position of the Company would be materially impacted. No adjustments have been recorded in the accompanying condensed consolidated financial statements for these uncertainties.

Regulatory Investigations

The Company is the subject of an investigation by the New Hampshire Bureau of Securities Regulation (the "Bureau") and the Securities and Exchange Commission (the "SEC"). The scope of the investigation relates generally to the Company's commercialization of real estate through joint ventures involving its Southwood Corporation subsidiary and, in particular, to certain of the Company's public disclosures regarding various joint venture transactions. Specifically, the Bureau and the SEC have alleged that in Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB, the Company improperly disclosed the purchase of a home by Maurice L. Arel, the Company's former President who is also a target of the investigation, from one of the Company's real estate joint ventures as being "on the same terms which would be given to any independent third-party". In fact, the purchase was not made on such terms, and the Company believes that Mr. Arel received a benefit in the range of \$50,000 to \$75,000 in connection with the purchase.

In addition, the Bureau and the SEC have alleged that the Company failed to properly disclose payments from the Company's real estate joint ventures to a landscaping company with which one of Mr. Arel's sons was involved. During the seven-year period from 1996 to 2002, six of the Company's joint ventures engaged for various landscaping projects a company with which one of Mr. Arel's sons was involved. The joint ventures' payments to that landscaping company totaled approximately \$517,600 during that period. In three of those years, the aggregate payments for the year exceeded \$60,000. In 1999, the joint ventures paid the landscaping company a total of \$259,000, the greatest amount that the joint ventures paid to the landscaping company during a single year.

The regulators have also alleged that the Company failed to disclose the fact that nearly all of its real estate joint ventures had been formed with the same developer, and that the Company did not exercise proper oversight of the activities of those various joint ventures, including by failing to obtain or to keep adequate records, such as copies of financial records, contracts, correspondence or other material information, by failing to obtain formal appraisals of the land the Company contributed to the joint ventures, and by failing to consider or investigate real estate development alternatives since the early 1990s.

The Company's board of directors retained legal counsel to conduct an independent review of the allegations, under the direction of the Company's Audit Committee, and instructed the Company's executive officers and counsel to cooperate fully with the investigation by the Bureau and the SEC. That independent review is now substantially complete and the Company's counsel has briefed the regulators on the board's findings. In addition, and as a result of the independent review, Mr. Arel's employment with the Company and its subsidiaries was terminated in May 2003.

The Bureau and the SEC could seek to impose fines, penalties or other sanctions upon the Company as a result of their respective investigations. In November 2003, the Bureau and the SEC indicated a willingness to consider a global settlement of their claims against the Company and against Mr. Arel. Although no definitive agreement or understanding has been reached, the framework of the settlement that is under consideration would consist of a fund to be established for the benefit of the

Company's shareholders, a fine to be paid to the Bureau, and a payment to the Bureau to defray its expenses. In addition to the negotiations with the Bureau and the SEC regarding the proposed settlement, the Company is also engaged in negotiations with Mr. Arel as to what portion, if any, of the settlement amounts he would be responsible for paying. There can be no assurance that a settlement agreement with the regulators and Mr. Arel will in fact be reached. The Company has recorded as an expense in 2003 a liability for this settlement based on the best estimates of the Company and its legal counsel.

Guarantee of Subsidiary Indebtedness

Southwood holds a 50% interest in four limited liability companies known as HECOP I, HECOP II, HECOP III and HECOP IV, each of which owns land and three of which each own a commercial office building, subject to a mortgage note with a local bank. The remaining 50% ownership interest in each of the LLCs is principally held by John Stabile, owner of H. J. Stabile & Son, Inc. The mortgage notes, totaling $9.1 million, which are not included in the accompanying condensed consolidated balance sheets, are each secured by the underlying real property. In addition, Southwood is contingently liable on one-half of the outstanding balance, and as such, it has issued a guarantee to the mortgagee for its share of the guaranteed indebtedness. At June 30, 2004, Southwood was contingently liable on approximately $4.5 million of mortgage indebtedness associated with the limited liability companies.

Note 6 – Deferred Gain on Land Sale

In January 2003, Southwood sold a tract of land to an unaffiliated regional developer for approximately $1.5 million. Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $257,000 in cash and a long-term note receivable of $1,223,990. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.5 million, of which $257,000, representing the net cash received at closing, is included in "Revenues-Real estate operations" for 2003. The remaining gain of $1,223,990, represented by the note receivable, has been deferred until payment of the note since the requirements established under Statement of Financial Accounting Standards No. 66, *"Accounting for Sales of Real Estate,"* for recognition of all of the profit from this sale have not yet been met.

Note 7 – Related Party Transaction

On April 23, 2004, Pennichuck executed an Indenture of Lease agreement (the "lease agreement") with HECOP III, LLC for the relocation of its corporate headquarters to a new leased facility in Merrimack, New Hampshire. As discussed in Note 5, under "Guarantee of Subsidiary Indebtedness," HECOP III, LLC is one of the four limited liability companies which is 50% owned by Southwood. The lease agreement was effective on May 1, 2004 with an expiration date of April 30, 2009 and provides for 14,289 rentable square feet at prevailing market rates during the term of the lease. In connection with tenant improvements for the new facility, Stabile Construction Services, an affiliate of H. J. Stabile & Son, Inc., acted as construction manager for Pennichuck as provided for under the terms of the lease agreement. Stabile Construction Services has provided similar services for other non-related tenants in HECOPs I, II and III.

Note 8 – Assets Held for Sale

The Company owns a three story, 11,616 square foot building located in downtown Nashua, New Hampshire. This building served as the Company's corporate office until its relocation to a new leased facility on April 30, 2004 as described in "Note 7 – Related Party Transaction". The Company is currently in active negotiations for the sale of this facility which it is expecting to conclude during the second half of 2004. In accordance with the requirements established under Statement of Financial Accounting Standards No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"), the Company has classified the costs related to this building separately as Assets Held for Sale. SFAS 144 requires that long-lived assets classified as held for sale be measured at the lower of their carrying amounts or fair value less cost to sell. Such assets consist of the following at June 30, 2004:

	Cost	Accumulated Depreciation	Net Book Value
		($000's)	
Land	$ 59	$ -	$ 59
Building	735	328	407
Leasehold Improvements	318	54	264
	$ 1,112	$ 382	$ 730

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Pennichuck Corporation (the "Company") has five wholly-owned subsidiaries. Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. ("Pittsfield") are involved in water supply and distribution in cities and towns throughout southern and central New Hampshire. These water subsidiaries are regulated by the New Hampshire Public Utilities Commission ("NHPUC") and, as such, they must obtain approval to increase their water rates to recover increases in operating expenses and to obtain the opportunity to earn a return on rate base investments. Pennichuck Water Service Corporation (the "Service Corporation") is involved in non-regulated, water-related services and contract operations. The Southwood Corporation ("Southwood") owns, manages, develops, and sells real estate, principally through real estate joint ventures.

Forward Looking Statements

In addition to historical financial information, this quarterly report, including management's discussion and analysis, contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward looking statements are based on current information and expectations available to management at the time the statements are made and on several assumptions concerning future events that involve risks, uncertainties and factors that may be beyond the Company's control. As such, the actual performance of the Company may be materially different from the future results or performance expressed or implied by the forward looking statements contained in this report. Such statements address the following subjects, among others: the status of eminent domain proceedings before the NHPUC to acquire the Company's water utility assets, ongoing litigation with respect thereto and impact thereof on the Company's consolidated business operations and planning; projected capital and liquidity needs; timeliness and extent of water utility rate increases, if any; future operating results in the water utility and real estate sectors; earnings growth and expectations; and corporate spending. The following factors, among others, could cause actual results to differ materially from those described in the forward looking statements: with respect to eminent domain and related litigation proceedings, the timeframe in which proceedings occur, and the results thereof or negotiated alternatives thereto; with respect to projected capital and liquidity needs, the condition of the financial markets and the Company's financial position; with respect to regulated water utility rate relief, the timing and amount of rate increases as well as general regulatory lag in realizing changes; with respect to water utility operations, the impact of weather, such as the amount of rainfall and temperature; with respect to real estate development, the impact of overall economic conditions in the local and national economy; with respect to corporate spending, changes in capital projects as well as enhanced security measures that may affect the Company's level of capital expenditures. We undertake no obligation to update or revise forward looking statements, whether as a result of new information, future events or otherwise.

Eminent Domain

The Company is the subject of eminent domain efforts by the City of Nashua (the "City") and the Town of Pittsfield (the "Town") regarding their desire to acquire all or a portion of the Company's water utility assets. In addition, a number of other communities whose residents are served by one or more of the Company's subsidiaries have expressed interest in forming a regional water authority for the purposes of acquiring and operating a substantial portion of the Company's water related assets. The acquisition of Company assets by eminent domain would be highly uncertain and likely involve protracted proceedings before the NHPUC and other litigation forums.

Given the highly integrated nature of the Company's businesses, a forced sale of some or all of the Company's water-related assets may result in increased costs and operating inefficiencies borne by the remaining assets of the Company not so acquired. Additionally, the Service Corporation's ability to service its existing contracts as well as pursue additional operating contracts may be impaired. There is no assurance that the City of Nashua or a regional water authority, if any, would be successful in acquiring some or all of the Company's assets by eminent domain, nor in such case is there any assurance as to the price determined by the NHPUC to be paid for those assets. The status of these eminent domain efforts is discussed in greater detail in "Note 5 – Commitments and Contingencies – Eminent Domain," to the Notes to Condensed Consolidated Financial Statements.

Regulatory Investigations

The Company is the subject of an investigation by the New Hampshire Bureau of Securities Regulation (the "Bureau") and the Securities and Exchange Commission (the "SEC"). The scope of the investigation relates generally to the Company's commercialization of real estate through joint ventures involving its Southwood Corporation subsidiary and, in particular, to certain of the Company's public disclosures regarding various joint venture transactions. Specifically, the Bureau and the SEC have alleged that in Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB, the Company improperly disclosed the purchase of a home by Maurice L. Arel, the Company's former President who is also a target of the investigation, from one of the Company's real estate joint ventures as being "on the same terms which would be given to any independent third-party". In fact, the purchase was not made on such terms, and the Company believes that Mr. Arel received a benefit in the range of $50,000 to $75,000 in connection with the purchase.

In addition, the Bureau and the SEC have alleged that the Company failed to properly disclose payments from the Company's real estate joint ventures to a landscaping company with which one of Mr. Arel's sons was involved. During the seven-year period from 1996 to 2002, six of the Company's joint ventures engaged for various landscaping projects a company with which one of Mr. Arel's sons was involved. The joint ventures' payments to that landscaping company totaled approximately $517,600 during that period. In three of those years, the aggregate payments for the year exceeded $60,000. In 1999, the joint ventures paid the landscaping company a total of $259,000, the greatest amount that the joint ventures paid to the landscaping company during a single year.

The regulators have also alleged that the Company failed to disclose the fact that nearly all of its real estate joint ventures had been formed with the same developer, and that the Company did not exercise proper oversight of the activities of those various joint ventures, including by failing to obtain or to keep adequate records, such as copies of financial records, contracts, correspondence or other material information, by failing to obtain formal appraisals of the land the Company contributed to the joint ventures, and by failing to consider or investigate real estate development alternatives since the early 1990s.

The Company's board of directors retained legal counsel to conduct an independent review of the allegations, under the direction of the Company's Audit Committee, and instructed the Company's executive officers and counsel to cooperate fully with the investigation by the Bureau and the SEC. That independent review is now substantially complete and the Company's counsel has briefed the regulators on the board's findings. In addition, and as a result of the independent review, Mr. Arel's employment with the Company and its subsidiaries was terminated in May 2003.

The Bureau and the SEC could seek to impose fines, penalties or other sanctions upon the Company as a result of their respective investigations. In November 2003, the Bureau and the SEC indicated a willingness to consider a global settlement of their claims against the Company and against Mr. Arel. Although no definitive agreement or understanding has been reached, the framework of the settlement that is under consideration would consist of a fund to be established for the benefit of the Company's shareholders, a fine to be paid to the Bureau, and a payment to the Bureau to defray its expenses. In addition to the negotiations with the Bureau and the SEC regarding the proposed settlement, the Company is also engaged in negotiations with Mr. Arel as to what portion, if any, of the settlement amounts he would be responsible for paying. There can be no assurance that a settlement agreement with the regulators and Mr. Arel will in fact be reached. The Company has recorded as an expense in 2003 a liability for this settlement based on the best estimates of the Company and its legal counsel.

Results of Operations - Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003

For the three months ended June 30, 2004, consolidated net income was $215,000, or $.09 per share. For the same period in 2003, the Company's consolidated net income was $393,000, or $.16 per share. As discussed in greater detail below, the decrease in net income was primarily attributable to costs incurred in connection with the eminent domain proceeding conducted by the City of Nashua (the "City"). The Company's consolidated revenues for the three months ended June 30, 2004 totaled $5.4 million, a 2.9% increase over the three months ended June 30, 2003. As discussed below, this increase in consolidated revenues occurred primarily in the Company's water utility segment.

Our consolidated revenues are generally seasonal due to the overall significance of the water sales of Pennichuck, Pennichuck East and Pittsfield as a percent of consolidated revenues. Water revenues are typically at their lowest point during the first and fourth quarters of the calendar year while water revenues in the second and third quarters tend to be greater as a result of increased water consumption during the late spring and summer months. In addition, our consolidated revenues may be significantly affected by sales of major real estate parcels, which may occur from time to time.

Water Utility Operations

The Company's water utility operations include the activities of Pennichuck, Pennichuck East and Pittsfield, each of which is regulated by the NHPUC. The combined utility operating revenues for the three months ended June 30, 2004 increased $321,000 to $4.9 million, or a 7.0% increase from the same period in 2003 as shown in the table below broken out by each regulated water utility:

	June 30, 2004	June 30, 2003	Change
		($000's)	
Pennichuck	$3,959	$3,707	$ 252
Pennichuck East	807	762	45
Pittsfield	122	98	24
Total	$ 4,888	$ 4,567	$ 321

The percentage of each utility's revenues to the total combined utility revenues remained generally unchanged from the second quarter of 2003 to the second quarter of 2004.

The increase in combined utility revenues was the result of (i) a 1.9% increase in the utilities' customer base, (ii) an increase in billed consumption of 2.1% as compared to 2003 primarily due to lower levels of precipitation experienced in the regions served by our water utilities during the second quarter of 2004 as compared to the same quarter in 2003 and (iii) a 17.74% rate increase approved by the NHPUC and implemented by Pittsfield in February 2004.

During the past twelve months, the total increase in our combined utilities' customer base was 543 customers, or 1.9%. The number of customers in our utilities' community water systems has increased by 178 customers, or 8.8% during the last twelve months. Similarly, the number of customers in Pennichuck East has increased by 134 customers, or 3.1% since June 30, 2003. By contrast, however, the number of customers within Pennichuck's core system has increased by only 227 customers, or 1.0% (from 22,116 at the end of June 2003 to 22,343 at the end of June 2004). These growth trends are consistent with our historical experience in recent prior years.

Total utility operating expenses were $3.6 million for the three months ended June 30, 2004, a $131,000, or 3.8%, increase over the same period last year. The combined water utilities' operating costs increased primarily due to:

(i) approximately $30,000 of increased treatment and purchased water costs associated with operating our community systems in Pennichuck East during the second quarter of 2004, reflecting the increase in customer base in those systems;

(ii) approximately $24,000 of increased distribution system expenses as a result of colder temperatures experienced in the first quarter of 2003 as well as increased labor costs;

(iii) additional depreciation charges and property taxes totaling $54,000 and $15,000, respectively, associated with approximately $9.5 million of new utility plant and equipment placed in service during the past year; and

(iv) an overall increase of approximately 3% in union wages effective in mid-February 2004.

On May 28, 2004, Pennichuck filed a Petition for Rate Relief with the NHPUC in which it is seeking an overall increase in its rates, which if granted, would result in approximately $2.34 million of additional annual revenues. The NHPUC has scheduled a hearing on August 24, 2004 for a temporary rate increase requested by Pennichuck, which if granted, would result in approximately $1.7 million in additional annual revenues effective beginning the third quarter of 2004. It is uncertain (i) whether the temporary rate increase will be granted, and if so, the amount of the increase, (ii) whether or not this rate case will be concluded in 2004, and (iii) the amount of the permanent rate increase which will ultimately be determined by the NHPUC.

Real Estate Operations

For the three months ended June 30, 2004, revenues from Southwood's real estate activities were $22,000 compared to $277,000 for the same period last year. Last year's revenues included $150,000 received by Westwood Park, LLC ("Westwood"), representing escrowed funds from a land sale which occurred in 2000. During the three months ended June 30, 2003, the restrictions relating to those escrowed funds expired and as a result, the funds were recognized as revenues. Westwood is a consolidated joint venture, in which Southwood has a 60% ownership interest, that was formed in 1997 to develop and sell certain parcels of land in northwest Nashua.

Southwood holds a 50% ownership interest in four limited liability companies ("LLCs"), known as HECOP I, HECOP II, HECOP III and HECOP IV. Each of these LLCs owns land and three of the LLCs each own a commercial office building in Merrimack, New Hampshire. The remaining 50% ownership interest in each of the LLC's is principally held by John Stabile, a local developer, with whom Southwood has also participated in four residential joint ventures during the past 10 years. The assets and liabilities of those LLCs are not included in the accompanying Condensed Consolidated Balance Sheets. For the three months ended June 30, 2004 and 2003, Southwood recognized revenues of approximately $19,000 and $81,000, respectively, representing its 50% share of the pretax operating income from these LLCs. The decline in pretax operating income primarily reflects a loss of approximately $70,000 of rental income resulting from 25,600 square feet of office vacated in January 2004 by of one the tenants in the HECOP III building. However, as reported in "Note 7 – Related Party Transaction" to the Notes to Condensed Consolidated Financial Statements, Pennichuck has entered into a 5 year lease effective May 1, 2004, for 14,289 square feet of office space in HECOP III.

Contract Operations

Revenues from contract operations were $482,000 for the three months ended June 30, 2004, compared to $390,000 for the same period in 2003. The Service Corporation's revenues consist chiefly of fees earned under various operations and billing contracts as well as rental income from several tower leases. The $92,000 increase in contract revenues over last year is principally due to: (i) additional work performed under the Service Corporation's two largest operating contracts with the Town of Hudson, New Hampshire and the Town of Salisbury, Massachusetts; and (ii) additional contract revenues from 12 new community water system contracts. During the three months ended June 30, 2004, the Service Corporation acquired 3 new operating contracts for smaller community water systems.

Operating expenses associated with our contract operations were $464,000 for the three months ended June 30, 2004 compared to $375,000 for the three months ended June 30, 2003. The increase in operating expenses resulted primarily from (i) additional direct expenses of $18,000 for servicing the operating contracts and (ii) an increase of $83,000 in allocated intercompany charges reflecting additional time and resources utilized for the operation and development of the Service Corporation's various activities, including business development.

Eminent Domain Taking and Other Expenses

During the three months ended June 30, 2004 and 2003, the Company incurred approximately $447,000 and $205,000, respectively, of legal and other fees in connection with the eminent domain proceeding conducted by the City of Nashua (the "City") and the pending regulatory investigations discussed in "Note 5 – Commitments and Contingencies" to the Notes to Condensed Consolidated

Financial Statements. A breakout of these costs for the three months ended June 30, 2004 and 2003 is shown in the following table.

	2004	2003
Eminent domain taking	$379,000	$ 20,000
Regulatory investigations	68,000	185,000
Total	$447,000	$205,000

The Company currently expects that it will continue to incur significant legal and other costs associated with the eminent domain taking by the City until final resolution of this matter. The future adverse impact of such additional costs and the duration of this matter cannot be reasonably determined at this time.

Results of Operations – Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

For the six months ended June 30, 2004, the Company's consolidated net income was $194,000, or $.08 per share. For the same period in 2003, the Company's consolidated net income was $539,000, or $.23 per share. The Company's consolidated revenues for the six months ended June 30, 2004 totaled $10.2 million compared to $10.1 million last year. As discussed below, the increase in consolidated revenues occurred primarily in the Company's water utility business segment due to slight increases in water consumption during 2004.

Water Utility Operations

Utility operating revenues for the six months ended June 30, 2004 increased to $9.1 million, or 5.7%, from the same period in 2003 as shown in the table below broken out by each of our regulated water utilities:

	June 30, 2004	June 30, 2003	Change
		($000's)	
Pennichuck	$7,399	$7,033	$ 366
Pennichuck East	1,469	1,354	115
Pittsfield	240	232	8
Total	$ 9,108	$ 8,619	$ 489

For the six months ended June 30, 2004, 81%, 16% and 3% of the combined utilities' operating income was provided by Pennichuck, Pennichuck East and Pittsfield, respectively, which was comparable to 2003.

The increase in combined utility revenues, which occurred primarily in Pennichuck, was the result of the following: (i) a 2% increase in total new customers from June 2003 to June 2004; (ii) an increase in year-to-date combined billed consumption of 1.4% attributable primarily to lower levels of precipitation experienced in the regions served by our water utilities during 2004 and (iii) a 17.74% rate increase approved by the NHPUC and implemented by Pittsfield in February 2004.

For the six months ended June 30, 2004, utility operating expenses increased by $379,000, or 5.5%, to $7,246,000. That combined increase in the utilities' operating expenses over the six months ended June 30, 2003 resulted chiefly from:

(i) approximately $63,000 of increased treatment and purchased water costs associated with operating our community systems in Pennichuck East during the six months ended June 30, 2004, reflecting the increase in customer base in those systems;

(ii) approximately $16,000 of increased distribution system expenses as a result of colder temperatures experienced in the first quarter of 2003 as well as increased labor costs;

(iii) approximately $58,000 for additional property and liability insurance premiums, consistent with recent changes in the insurance market;

(iv) additional depreciation charges and property taxes totaling $129,000 and $51,000, respectively, associated with approximately $9.5 million of new utility plant and equipment placed in service during the past year; and

(v) an overall increase of approximately 3% in union wages effective in mid-February 2004.

On May 28, 2004, Pennichuck filed a Petition for Rate Relief with the NHPUC in which it is seeking an overall increase in its rates, which if granted, would result in approximately $2.34 million of additional annual revenues. The NHPUC has scheduled a hearing on August 24, 2004 for a temporary rate increase requested by Pennichuck, which if granted, would result in approximately $1.7 million in additional annual revenues effective beginning in the third quarter of 2004. It is uncertain (i) whether the temporary rate increase will be granted, and if so, the amount of the increase, (ii) whether or not this rate case will be concluded in 2004, and (iii) the amount of the permanent rate increase which will ultimately be determined by the NHPUC.

Real Estate Operations

For the six months ended June 30, 2004, revenues from Southwood's real estate activities were $124,000 compared to $729,000 for the same period last year. Revenues for the six months ended June 30, 2003 included approximately $257,000 representing the net cash received at closing from the sale of a 67 acre parcel of unimproved land for approximately $1.5 million. Under the terms of that sale, Southwood also received a long-term note receivable of $1.2 million. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.5 million, of which $257,000 was recognized in 2003. The remaining gain of approximately $1.2 million, represented by the note receivable, has been deferred until payment of the note since the requirements established under Statement of Financial Accounting Standards No. 66, *"Accounting for Sales of Real Estate"* for recognition of all of the profit from this sale have not yet been met.

Revenues for the six months ended June 30, 2003 also included $150,000 received by Westwood representing escrowed funds from a land sale which occurred in 2000. During the six months ended June 30, 2003, the restrictions relating to those escrowed funds expired and as a result, the funds were recognized as revenues.

Southwood's revenues for the first half of 2004 include approximately $99,000 representing its 50% share of the pretax profits from the office leasing activities of the three LLCs discussed earlier. For the same period in 2003, Southwood's share of pretax operating income from the LLCs was approximately $239,000. The decline in pretax operating income primarily reflects a loss of approximately $130,000 of rental income resulting from 25,600 square feet of office vacated in January 2004 by of one the tenants in the HECOP III building. However, as reported in "Note 7 – Subsequent Event with Related Party" to the Notes to Condensed Consolidated Financial Statements, Pennichuck has entered into a 5 year lease effective May 1, 2004, for 14,289 square feet of office space in HECOP III.

Operating expenses associated with our real estate activities for the first six months of 2004 totaled $81,000, comprised chiefly of allocated intercompany charges, consulting fees and property taxes on the remaining Southwood landholdings.

Contract Operations

Revenues from contract operations totaled $945,000 for the six months ended June 30, 2004, representing a $211,000 increase over the same period last year. The increase over last year includes (i) additional work performed under the Service Corporation's two largest operating contracts with the Town of Hudson, New Hampshire and the Town of Salisbury, Massachusetts; and (2) additional contract revenues from 12 new community water system contracts.

Operating expenses associated with our contract operations were $836,000 and $648,000 for the six months ended June 30, 2004 and 2003, respectively. The increase in operating expenses associated with our contract operations resulted primarily from $73,000 in additional direct expenses associated with the Hudson and Salisbury contracts and additional intercompany charges of $94,000 reflecting additional time and resources allocable to the Service Corporation activities, including new business development.

Eminent Domain Taking and Other Expenses

Eminent domain taking and other expenses for the six months ended June 30, 2004 totaled $736,000 compared to $689,000 during the same period last year. These expenses in the current year related primarily to legal and other fees incurred in connection with the eminent domain proceeding conducted by the City and the pending regulatory investigations discussed in Note 5 to the Notes to Condensed Consolidated Financial Statements. During the six months ended June 30, 2003, the Company also incurred approximately $231,000 in merger costs relating to the terminated merger agreement with Philadelphia Suburban Corporation. A breakout of these costs for the six months ended June 30, 2004 and 2003 is shown in the following table.

	2004	2003
Eminent domain taking	$630,000	$113,000
Regulatory investigations	106,000	345,000
Terminated merger	-----	231,000
Total	$736,000	$689,000

The Company currently expects that it will continue to incur significant legal and other costs associated with the eminent domain taking by the City until final resolution of this matter. The future adverse impact of such additional costs and the duration of this matter cannot be reasonably determined at this time.

Liquidity and Financial Condition

During the first half of 2004, the primary sources of cash needed for our day-to-day operating activities, debt service and dividend payments were (i) operating cash flow, (ii) available cash from the Company's short-term investments at the beginning of the year and (iii) additional borrowings under its revolving line of credit loan facility (the "Loan Agreement") with its bank, Bank of America ("BofA").

On March 29, 2004, the Company and BofA amended the Loan Agreement to increase the available short-term credit from $2.5 million to $6.5 million. This increase is necessary in order to fund (i) the Company's planned capital expenditures over the next two years, (ii) any shortfall in operating cash flow and (iii) future costs associated with the Company's defense against the City of Nashua's eminent domain taking efforts and the likely settlement of the governmental regulatory investigations discussed in "Note 5 - Commitments and Contingencies" to the Notes to Condensed Consolidated Financial Statements. At June 30, 2004, there were $3.25 million in outstanding borrowings under this Loan Agreement at floating interest rates ranging from 2.55% to the prime rate of 4.0%. Nearly $630,000, or half of the $1.25 million of increased borrowings from the end of 2003, resulted from expenses incurred by the Company in its defense against the eminent domain action taken by the City of Nashua as discussed more fully in Note 5.

At June 30, 2004, the Company reported a cash overdraft position of approximately $952,000 compared to $391,000 in cash and cash equivalents at the end of 2003. This overdraft was covered by additional advances under the Loan Agreement subsequent to June 30, 2004. The Company's two largest utilities, Pennichuck and Pennichuck East, intend to issue a combined total of $3.0 million in tax exempt bonds during the third quarter of 2004. Of that amount, approximately $1.3 million will be used to pay down a portion of any outstanding balance under the Company's Loan Agreement and the remainder will be used to fund the cost of two water utility projects expected to be undertaken in the second half of 2004.

The Company, Pennichuck and Pennichuck East have a combined total of $9.5 million in balloon payments due on certain notes that mature in April 2005. These notes have been reclassified under Current Liabilities in the accompanying Condensed Consolidated Balance Sheets as of June 30, 2004. At this time, there are no specific commitments with respect to repayment of these maturing notes. The Company is currently evaluating several financing alternatives which address the refinancing of these maturing principal amounts and its short-term liquidity needs. The Company fully expects to meet its ongoing capital requirements and liquidity needs over the next twelve to thirty six months.

For 2004, we expect that our total expenditures for capital projects will be approximately $6.99 million. Funding for our current year capital projects is expected to be derived from a combination of contributions in aid of construction, state grants and low-interest, state revolving loans and the planned tax exempt bond offering as well as from internally-generated funds and short-term borrowings under the Company's Loan Agreement.

As discussed under "Results of Operations – Water Utility Operations," Pennichuck, the Company's largest regulated subsidiary, filed a Petition for Rate Relief with the NHPUC on May 28, 2004 in which it is seeking an overall increase in its rates, which if granted, would result in approximately $2.34 million of additional annual revenues. The NHPUC has scheduled a hearing on August 24, 2004 with respect to an 11.3% temporary rate increase requested by Pennichuck, which if granted, would result in approximately $1.7 million in additional annual revenues effective beginning in the third quarter of 2004.

Other major changes in our financial position from December 31, 2003 to June 30, 2004 are discussed below.

- The increase in "Assets Held for Sale" of $730,000 represents the building cost and leasehold improvements relating to the Company's former corporate office as more fully explained in Note 8 to the Notes to Condensed Consolidated Financial Statements.

- The increase in accounts receivable of $485,000 relates primarily to an increase in unbilled water revenues over the end of 2003, principally due to the greater demand and consumption of water during the second quarter of the year compared to consumption levels in the fourth quarter.

- Prepaid expenses at June 30, 2004 reflect approximately $380,000 of increased insurance premiums for general liability and directors and officers liability insurance which were prepaid in the first quarter for calendar year 2004.

- The $441,000 decrease in accounts payable from the end of 2003 to June 30, 2004 is primarily attributable to the payment of outstanding invoices due to various contractors for capital project work completed last year.

- Retained earnings decreased from $13.18 million at the end of 2003 to $12.34 million at June 30, 2004 reflecting the Company's year-to-date net income of $194,000 and common dividends paid of $1,030,000.

Critical Accounting Policies, Significant Estimates and Judgments

The Company has identified the accounting policies below as those policies critical to its business operations and the understanding of the results of operations. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Changes in the estimates or other judgments included within these accounting policies could result in significant changes to the financial statements. Our critical accounting policies are as follows.

Regulatory Accounting - the use of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards No. 71 ("SFAS 71"), *"Accounting for the Effects of Certain Types of Regulation"* stipulates generally accepted accounting principles for companies whose rates are established by or are subject to approval by an independent third-party regulator. In accordance with SFAS No. 71, we defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in rates charged to our water utilities' customers. In the event that the inclusion in the rate-making process is disallowed, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

Revenue Recognition - utility revenues are based on authorized rates approved by the NHPUC. Estimates of water utility revenues for water delivered to customers but not yet billed are accrued at the end of each accounting period. The Company reads its residential customer meters generally on a quarterly basis and records its revenue based on meter reading results. Unbilled revenues from the last meter-reading date to the end of the accounting period are estimated based on historical usage patterns and the effective water rates. The estimate of the unbilled revenue is a management estimate utilizing certain sets of assumptions and conditions. Actual results could differ from those estimates.

The Company's non-utility revenues are recognized when services are rendered or when water is delivered. Revenues are based, for the most part, on long-term contractual rates.

Pension and Other Post Retirement Benefits - the Company's pension and other postretirement benefits costs are dependent upon several factors and assumptions, such as employee demographics, plan design, the level of cash contributions made to the plans, earnings on the plans' assets, the discount rate, the expected long-term rate of return on the plans' assets and health care cost trends.

In accordance with SFAS No. 87, "*Employers Accounting for Pensions*" ("SFAS 87") and SFAS No. 106, "*Employers Accounting for Postretirement Benefits Other than Pensions*" ("SFAS 106"), changes in pension and postretirement benefit obligations other than pensions ("PBOP") associated with these factors may not be immediately recognized as pension and PBOP costs in the statements of income, but generally are recognized in future years over the remaining average service period of the plans' participants.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has entered into two interest rate swap agreements at a fixed rate of 6.5% in order to mitigate interest rate risks associated with its floating-rate loans. The agreements provide for the exchange of fixed interest rate payments for floating interest rate payment obligations on notional amounts of principal totaling $6,000,000. The Company has designated these interest rate swaps as a cash flow hedge against the variable future cash flows associated with the interest payments due on $6,000,000 of notes. As of June 30, 2004, the Company has recorded a liability of approximately $193,000 in "Other liabilities and deferred credits" associated with these swap agreements with the offsetting amount in "Accumulated other comprehensive income" in the accompanying Condensed Consolidated Balance Sheets.

The fair market value of the Company's interest rate swaps represents the estimated unrealized loss to terminate these agreements based upon current interest rates.

Item 4: CONTROLS AND PROCEDURES

We carried out an evaluation required by Rule 13a-15(b) of the Securities Exchange Act of 1934 under the supervision and with the participation of our management, including the principal executive officer and the principal financial officer, of the effectiveness of the design and operation of our "disclosure controls and procedures" as of the end of the period covered by this report.

Disclosure controls and procedures are designed with the objective of ensuring that (i) information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) information is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Based on their evaluation, the principal executive officer and the principal financial officer have concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective to provide reasonable assurance that information relating to the Company (including our consolidated subsidiaries) required to be included in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms.

There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company has been informed by the Securities and Exchange Commission and the New Hampshire Bureau of Securities Regulation that it is the subject of related investigations by each regulator as discussed in greater detail in "Note 5 – Commitments and Contingencies – Regulatory Investigations" to the Notes to Condensed Consolidated Financial Statements.

Further, eminent domain proceedings have been commenced before the New Hampshire Public Utilities Commission ("NHPUC") against certain of the Company's water utility subsidiaries, and the Company and such subsidiaries are engaged in litigation with respect thereto as discussed in greater detail in "Note 5 – Commitments and Contingencies – Eminent Domain" to the Notes to Condensed Consolidated Financial Statements.

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

(a) On April 23, 2004, the Company held its Annual Meeting of Shareholders to elect six directors and to ratify the appointment by the Board of Directors of PricewaterhouseCoopers LLP as the Company's independent accountants for the year ending December 31, 2004.

(b) The following directors were elected to a three year term expiring at the Annual Meeting of Shareholders in 2007:

Election of Directors	Votes For	Votes Withheld or Opposed
Michelle L. Chicoine	2,002,147	59,243
John R. Kreick	1,936,528	124,862
Martha E. O'Neill	2,004,263	57,127

The following director was elected to a two year term expiring at the Annual Meeting of Shareholders in 2006:

Election of Directors	Votes For	Votes Withheld or Opposed
Steven F. Bolander	2,001,796	59,594

The following directors were elected to a one year term expiring at the Annual Meeting of Shareholders in 2005:

Election of Directors	Votes For	Votes Withheld or Opposed
Charles E. Clough	1,985,980	75,410
Donald L. Correll	2,003,831	57,559

The continuing directors whose terms expire beyond the April 23, 2004 Annual Meeting date are:

Joseph A. Bellavance
Hannah M. McCarthy
Robert P. Keller

(c) By a vote of 2,041,407 shares FOR, 16,529 shares ABSTAINING and 3,451 shares AGAINST, the appointment of PricewaterhouseCoopers LLP as the Company's independent accountants for the year ending December 31, 2004 was ratified.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K:

(a) The following exhibits are filed as part of this report:

Exhibit Number	**Exhibit Description**
10.19	Indenture of Lease dated as of April 23, 2004 by and between Pennichuck Water Works, Inc., as lessee and HECOP III, LLC, as lessor (Filed as Exhibit 10.19 to this report on Form 10-Q)
31.1	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 31.1 to this report on Form 10-Q)
31.2	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 31.2 to this report on Form 10-Q)
32.1	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 32.1 to this report on Form 10-Q)
32.2	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 32.2 to this report on Form 10-Q)

(b) Reports on Form 8-K:

The following reports were filed by the Company on Form 8-K during the second quarter of 2004:

1. Current Report on Form 8-K dated April 6, 2004 under the caption "Item 5. Other Events and Regulation FD Disclosure."

2. Current Report on Form 8-K dated April 20, 2004 under the caption "Item 5. Other Events and Regulation FD Disclosure."

3. Current Report on Form 8-K dated June 10, 2004 under the caption "Item 5. Other Events and Regulation FD Disclosure."

SIGNATURES

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

Pennichuck Corporation
(Registrant)

Date: August 13, 2004

/s/ Donald L. Correll
Donald L. Correll, President and Principal Executive Officer

Date: August 13, 2004

/s/ Charles J. Staab
Charles J. Staab, Vice President, Treasurer and Principal Financial Officer

INDENTURE OF LEASE

THIS INDENTURE OF LEASE dated as of the 23'rd day of April, 2004, by and between HECOP III, LLC, a New Hampshire limited liability company, with a principal place of business at 21 Manchester Street, Merrimack, New Hampshire (hereinafter called the Lessor), and Pennichuck Water Works, Inc., a New Hampshire corporation, with a principal place of business at 4 Water Street, Nashua, New Hampshire 03060, (hereinafter called the Lessee).

WITNESSETH THAT, in consideration of the mutual covenants contained herein, and by these presents Lessor does demise and lease, to the Lessee, for the rental, for the term and upon the other conditions hereinafter set forth, of a portion of a building known as the Heron Cove Office Park Building III (the "Building") which is located on a parcel of land, situated in Merrimack, New Hampshire, identified as Lot 2D/4-6 (the "Lot") having an address of 25 Manchester Street, Merrimack, New Hampshire, which portion located on the third floor of the Building is circumscribed in black outline and identified by cross-hatch lines on the plan designated as **Exhibit A** hereto attached and made a part hereof (hereinafter referred to as the "Premises" and also referred to as the "usable area").

Premises: The Premises is leased as an empty space area, subject to tenant improvements identified by Lessee (the "Tenant Improvements") as set forth on **Exhibit B** attached hereto and described hereinbelow. The Premises contain approximately twelve thousand nine hundred eighty-three (12,983) usable square feet measured from interior wall to interior wall. The Lessee shall also have the benefit of the right of use of the common entry way or lobby, elevator and hallways in the Building which are not under separate lease, together with the right to use the green areas, walks, ways and parking areas (Lessee shall have a right to a minimum of 52 parking spaces, amounting to 4 spaces per 1,000 square feet) on the Lot, all of which are hereinafter referred to as the "common areas". Lessee shall have the right to use utilities and utility systems including plumbing, electricity, heating and ventilation supplied to the Building and the right to run computer system, telephone and antenna lines through the Building's common chases, (the "common facilities"), all on a twenty-four (24) hours per day, fifty-two (52) weeks per year basis, provided, however, Lessor reserves the right to designate the location of Lessee's parking spaces on the Lot. Landlord shall provide a gas fired heat and electric cooled Heating Ventilation and Air Conditioning system (hereinafter " HVAC") to service the Premises. Lessee shall at all times have individual control of the heating ventilation and air conditioning within the Premises.

The typical Building hours of operation shall be Monday though Friday from 7:00 AM to 5:00 PM, Saturday and Sunday, from 7:00 AM to 12:00 PM. Nonetheless, Lessor shall have access to the Premises twenty-four (24) hours per day, seven (7) days per week, three hundred and sixty-five (365) days per year, by way of a key access system.

Tenant shall have the right to install its own Premises security system.

Notwithstanding the usable area, the rent amount shall be calculated based upon a pro rata sharing of the common area square footage based upon the usable area's square footage so that the total area for purposes of rent calculation of the Premises (known as "rentable area") is fourteen thousand two hundred eighty-nine (14,289) square feet. This rentable area is subject to modification as the common area footage changes, but shall never be greater than 14,289 square feet.

For purposes of this lease, the following shall apply:

"rentable area" - 14,289 square feet
"usable area" - 12,983 square feet
"common area factor" - 10.06%
"common area" - 6,075 square feet
total rentable area of building - 66,461 square feet

The Premises is hereby leased as above described to the Lessee, its successors and assigns, to and for its and their proper use and benefit as specified hereinbelow.

Section 1 - Term. The term of this lease shall be for a five (5) year period which, notwithstanding the date of signature of this lease, shall begin upon the earlier of substantial completion of initial build out Tenant Improvements or May 1, 2004.

Lessee shall be allowed temporary access to the Premises from the date of execution hereof to the beginning date to allow Lessee or its contractors to install telephone/computer/data wiring at a mutually agreeable time.

Section 2 - Rent.

2.1 The Lessee shall pay to the Lessor base rent payable in monthly installments over the term with the initial base rent at the time of the execution of this lease calculated at Thirteen Dollars ($13.00) per square foot of rentable area per year or One Hundred Eighty-five Thousand Seven Hundred Fifty-seven and 00/100 Dollars ($185,757.00) per year, payable at the rate of Fifteen Thousand Four Hundred Seventy-nine and 75/100 Dollars ($15,479.75) per month for the first year.

2.2 The base rent shall increase for years 2 and 3 of the term on the first anniversary date of the term beginning date with a resultant base rent of Fourteen Dollars ($14.00) per square foot and a monthly payment obligation of Sixteen Thousand Six Hundred Seventy and 50/100 Dollars ($16,670.50).

2.3 The base rent for years 4 and 5 of the lease term shall be at the then current fair market value as determined by agreement of Lessor and Lessee, as follows: Lessor shall provide Lessee with the proposed base rent for years 4 and 5 on or before November 1, 2006, and Lessor and Lessee shall negotiate in good faith for a period of not more than three (3) weeks to attempt to reach agreement on the base rent. If Lessor and Lessee shall be unable to agree, it shall be determined by two (2) independent real estate brokers chosen by Lessee and Lessor; provided, however, that in any event the base rent for years 4 and 5 shall not be less than the basic portion of the base rent for the year 3 of the lease term.

2.4 The base rent as set forth in Sections 2.1, 2.2 and 2.3 above shall be further adjusted in accordance with increases in expenses identified on **Exhibit C**, attached hereto (the "Operating Expenses"). The adjustment shall occur as follows: The Operating Expenses shown on **Exhibit C** are estimates of the calendar year 2004 based upon actual expenses incurred in 2003. The Operating Expenses shall be estimated every January of this lease term, commencing in January 2005, and such estimate shall be based upon the actual Operating Expenses incurred during the preceding year. Simultaneously with such base rent adjustment, Lessor shall calculate the difference between actual and budgeted Operating Expenses for the previous year. If the total actual Operating Expenses for the previous year exceeds the total estimated Operating Expenses for that prior year, the Lessee shall promptly pay the difference to Lessor.

2.4.1 The annual pro rata share of increase of the operating expense budget shall be determined by multiplying the difference between the actual year-end expenses and the budgeted operating expenses times a fraction, the numerator of which is the rentable square feet of the Premises and the denominator of which is the total rentable square footage in the Building. The Lessee shall be entitled to review the actual documentation of Lessor used in determining the statement of actual operating expenses. The Lessor shall notify the Lessee of the adjustment in January of each year.

2.4.2 Notwithstanding the terms herein, Lessor and Lessee agree that Lessee shall have a specific limited utility usage allowance including utilities related to the Premises exclusively, which shall include heating, ventilation and air conditioning, as well as to the common area and common facility, all as set forth on **Exhibit D**. Should Lessee's actual utility usage, as measured through Lessee's individual meter, exceed the allowance set forth on **Exhibit D**, Lessee shall be liable for costs of such excess as set forth therein.

2.5 The first monthly installment of rent hereunder shall be due and payable on the term beginning date. All subsequent installments shall be due and payable on the first day of each month in advance for the balance of the term hereof beginning on the first day of the month following the term beginning date. In the event the term beginning date is not the first of the month, the second and last installment shall be prorated to account for the difference.

2.6 Unless and until otherwise directed in writing by the Lessor, all payments of rent shall be made to the Lessor at the above address.

Section 3 - Quiet Enjoyment. The Lessor shall put the Lessee in sole and exclusive possession of the Premises (excepting the common areas which shall be shared by other tenants of the Building) at the beginning of the term hereof, subject to the existing encumbrances of record, and the Lessee, upon paying the rent and observing the other covenants and conditions herein upon its part to be observed, shall peaceably and quietly hold and enjoy the Premises.

Section 4 - Repairs by Lessor. The Lessor shall be responsible for maintenance, repair or replacement of the structural elements of the Building and all common areas and common facilities, including all mechanical and non-mechanical installations therein (including heating and ventilating systems), the exterior (including the roof), and all surfaced roadways, walks and parking areas on the Lot, except as may be necessitated by the negligent conduct of Lessee, its guests or invitees, which shall be the Lessee's responsibility; provided, however, that the cost of the normal repair and maintenance (including cleaning) of the structural elements of the Building, the common areas and the common facilities shall be shared among all Lessees of the Building, on a pro rata basis based upon usable square footage of each unit to be incorporated within the expense portion of the base rent as described in Section 2. The Lessee shall, prior to occupancy under the lease, fully inspect the Premises and have its experts examine the leased Premises. In the event Lessee finds the Premises not to be in satisfactory condition for its intended use, it shall notice the same in writing (the "List of Deficiencies") and deliver the List of Deficiencies to the Lessor prior to occupancy, or otherwise, the Lessee shall accept the Premises as complete as of the date of occupancy under this lease.

Section 5 - Repairs by Lessee.

5.1 The Lessee shall, at all times and at its cost and expense, be responsible for the cost of maintenance of the Premises in substantially the same condition and in the same state of readiness for the same use as at the date of occupancy under this lease, and at the expiration of this lease or earlier termination hereof for any cause herein provided for shall deliver up the Premises to the Lessor in the same condition and state of repair as at the date of occupancy, reasonable wear and tear, taking by eminent domain and damage by fire or other casualty which is not the fault of Lessee excepted. The maintenance described hereunder shall at all times be performed by Lessee's licensed contractor or agent, who shall be approved in writing by Lessor, said approval not to be unreasonable withheld, reasonably acceptable to Lessor, including specifically but not limited to regular and periodic cleaning, janitorial service and minor maintenance, which shall be performed by Lessee at its cost, expense and direction.

5.2 Unless caused by the negligence of the Lessor, those for whom Lessor is legally responsible or Lessor's guests, invitees or other tenant, the Lessee, shall at its cost and expense, be responsible to pay for normal non-structural repairs and maintenance of the Premises as needed. These repairs shall include, without limitations, the replacement of broken glass, interior repainting, the repair of floor covering. In addition, Lessee shall, at its cost and expense, if necessary, be responsible for any repair, maintenance or replacement, including new installation and new improvements if necessary, of any other improvements to the Premises which may be lawfully required by any public authority in satisfaction of all ordinances, regulations or statutes, whether effective at the time of execution of the lease or which become effective during the term arising out of Lessee's particular use unless the foregoing required repairs, maintenance, replacement, installation or improvements involved structural changes to the Premises, in which event Lessor shall be responsible for those required changes. All such repairs, maintenance and improvements shall be performed by Lessee's licensed agents or contractors, reasonably acceptable to Lessor. It is understood and agreed that the Lessee may request of Lessor to make any further repairs and replacements at Lessee's cost and expense which the Lessee may desire, with the written consent of the Lessor, to be given in Lessor's sole discretion. All repairs shall be made so as to retain the structural integrity and architectural character of the Building and shall be of like quality as the remainder of the Building. Upon surrender of the Premises, the Lessee shall assign all of its rights under any construction warranties it may have concerning the Premises.

5.3 The Lessee shall not store equipment, materials or motor vehicles in the Building or on the Lot, excepting those motor vehicles of Lessee used on an active basis.

5.4 The Lessee shall at its expense make any alterations or changes in the Premises which may be necessary to meet the regulations and standards promulgated and established under the Occupational Safety and Health Act of 1970, the American with Disabilities Act, the Life Safety Codes or any other statutes, codes or ordinances governing the use and occupancy of the leased Premises or changes in said codes or ordinances of the Town of Merrimack during the term of the lease, provided Lessee's use of the Premises requires those alterations or changes in the Premises. Notwithstanding the foregoing, Lessor shall be responsible for any of the alterations or changes referenced in this Section 5.4 if those alterations or changes require structural modification to the Premises.

Section 6 - Improvements by Lessee.

6.1 The Lessee may elect to make alterations, additions and improvements to the Premises, as part of the "initial build out", under the terms and conditions described in this section and as contemplated in **Exhibit B**, attached hereto. All alterations, additions and improvements, shall be performed by Lessor, its agents or contractors only and shall be performed in a good and workmanlike manner. The Lessee shall give to the Lessor advance written notice of any alterations, additions or improvements. In any event the Lessee shall not, on its own or by its contractors or subcontractors, perform any alterations or improvements, and the Lessee shall not commit, suffer or permit waste upon the Premises. Lessee shall be responsible for obtaining all local, state and federal government permits as may be necessary for any alterations or improvements, provided, however, Lessor shall cooperate with Lessee in obtaining any required permits.

6.2 Lessor, through Stabile Construction Services, shall provide the Tenant Improvements according to plans and specifications to be provided by Lessee and approved by Lessor, which approval shall not be unreasonably withheld, the cost of which shall be borne as follows:

6.2.1 Lessor shall be responsible for the costs and expenses up to, but not exceeding, $15.00 per rentable square foot.

6.2.2 The Lessee shall be responsible for all costs and expenses exceeding $15.00 per rentable square foot, due and payable on the term beginning date.

6.2.3 All costs and expenses of said tenant improvements shall be based upon actual cost, including general conditions, plus 10% for profit and overhead. Lessor's contractor for said tenant improvements shall act as a construction manager and shall obtain at least three (3) quotes for each subcontractor whenever practical and Lessee shall have the right to review quotes and approve subcontractors. All costs shall be reasonable and customary and available for review by Lessee.

6.3 The Lessee shall have the right to have a sign or title installed within the directory located within the Building, on or near the entry door to the Premises, on any future marquis that may be erected at the entrance to the building, and on a ground sign similar to that existing at other office buildings located adjacent to the Premises, provided, however, that Lessee shall coordinate with other occupants of the Building as to the Building's ground sign, subject to approval of the Town of Merrimack and Lessor, which approval shall not be unreasonably withheld.

6.4 All other alterations, additions and improvements to the Premises, (other than the initial build out of the Tenant Improvements), which are requested by Lessee, shall be performed by Lessee's agents or contractors, who shall be approved in writing by Lessor, said approval not to be unreasonably withheld, and shall be performed in a good and workmanlike manner and billed directly to Lessee. The Lessee shall give to the Lessor advance written notice of any planned alterations, additions or improvements and Lessee shall not, on its own or by its contractors or subcontractors, perform any alterations, additions or improvements unless previously approved by Lessor in writing. Lessee shall not commit, suffer or permit waste upon the Premises. Lessee shall be responsible for obtaining all local, state and federal government permits as may be necessary for any alterations or improvements, provided, however, that Lessor shall cooperate with Lessee in obtaining any required permits.

Section 7 - Removal of Improvements. The Lessee shall, at the expiration of this lease, or at its earlier termination for any cause herein provided for, unless specifically waived in writing by Lessor at the time of expiration or termination of the lease, shall remove any alterations and additions to the Premises made at its request during the term hereof, whether located inside or outside the leased Premises with the exception of improvements made pursuant to Section 6.2 herein. Any improvements, additions and alterations for which removal is waived by Lessor, shall not be removed by Lessee, but shall become and remain the property of the Lessor without further compensation. Lessee shall be liable for any costs or expenses incurred by Lessor resulting from Lessee's failure to remove any alterations and additions to the Premises made by Lessee or at Lessee's request during the term hereof, if removal of said alterations and additions have not previously been waived by Lessor. At the expiration or earlier termination of the lease, Lessee shall return the Premises to Lessor in as good condition as when delivered to Lessee, as of the date of occupancy hereunder, reasonable wear and tear, taking by eminent domain and casualty damage not caused by Lessee, its guests or invitees, excepted.

Section 8 - Machinery and Equipment - Trade Fixtures.

8.1 The Lessee agrees that all machinery and equipment, and appurtenances thereto, installed in the Premises by it or by any employee, agent or subcontractor of the Lessee, or by any subtenant of the Lessee, which cannot be removed from the Premises without affecting or changing the structural character of the leased Premises shall be and become part of the realty and shall be and become the property of the Lessor and shall not be removed from the leased Premises without the written consent of the Lessor.

8.2 The Lessor agrees that (a) all machinery and equipment and appurtenances thereto, installed in or outside the Premises by the Lessee, or by any employee, agent or subcontractor of the Lessee, or by any subtenant of the Lessee, which may be removed from the leased Premises without permanent and substantial damage to the Premises and (b) all furniture, furnishings and movable trade fixture installed in or outside the Premises shall be deemed to remain personal property, and that all such machinery, equipment, appurtenances, furniture, furnishings and movable trade fixtures of the Lessee or of any employee, agent or subcontractor or subtenant of the Lessee, may be removed by Lessee prior to the expiration of this lease or its earlier termination for any cause herein provided for; but the Lessee shall repair any damage occasioned by such removal and shall restore the Premises to a condition which is comparable to that condition as of the date of occupancy hereunder, reasonable wear and tear, taking by eminent domain, and casualty damage not caused by Lessee, its guests or invitees, excepted. Any such personal property which may be removed pursuant to this section and which is not so removed prior to the expiration or earlier termination of this lease, may, at the option of the Lessor, be removed from the Premises by the Lessor and stored for the account of and at the expense of the Lessee or thrown away, at the sole election of the Lessor, or remain as part of the realty and become the possession of Lessor. If the property is removed by the Lessor as provided in this section and stored for the account of the Lessee by the Lessor, and if the Lessee shall fail to reclaim such property by paying the expenses of moving and storage and taking possession within thirty (30) days following such expiration or earlier termination of this lease, such property shall be deemed to have been abandoned by the Lessee, and may be appropriated, sold, destroyed, or otherwise disposed of by the Lessor without notice to the Lessee and without obligation to account therefor. The Lessee shall pay to the Lessor the cost incurred by the Lessor in removing, storing, selling, destroying or otherwise disposing of any such property.

Section 9 - Utilities. The Lessor shall arrange for the delivery of water and electricity to the Premises and the removal of sewerage and trash from the Building and the Building dumpster. If Lessee desires to have fiber optics lines delivered to the Building, Lessee shall notify the Lessor and be responsible for any and all costs associated therewith.

Section 10 - Use of Premises.

10.1 The Lessee shall be limited in its use of the Premises as general offices as permitted by the Town of Merrimack Zoning Ordinance and consistent with the nature of the building. In its use of the Premises, the Lessee shall comply with all laws, statutes, ordinances, codes and regulations applicable to the use thereof, including, without limiting the generality of the foregoing, the Zoning Ordinance of the Town of Merrimack, New Hampshire, the Resource Conservation and Recovery Act of 1976, and the Hazardous Waste Management Program of the State of New Hampshire (RSA 147:48 et. seq.) and the American with Disabilities Act.

10.2 The Lessee shall not injure or deface the Premises nor occupy or use, or permit or suffer the Premises or any part thereof to be occupied or used, for any unlawful or illegal business, use or purpose, not for any business, use or purpose which is disreputable or extra-hazardous nor in such manner as to constitute a nuisance of any kind nor for any purpose nor in any manner which would increase the premiums for fire insurance with extended coverage for the Premises. The Lessee shall, immediately upon discovery of any such unlawful, illegal, disreputable or extra-hazardous use, take all necessary steps, legal and equitable, to compel the discontinuance of such use and to oust and remove any sublessees, occupants or other persons guilty of such unlawful, illegal, disreputable or extra-hazardous use. Lessee shall be liable for any increases in insurance premiums caused by its use of the Premises.

10.3 The Lessee shall procure any licenses or permits required by any particular use of the Premises by the Lessee from any and all federal, state, local or administrative bodies, provided, however, that Lessor shall cooperate with Lessee in obtaining any required licenses or permits.

10.4 The Lessee shall indemnify and save the Lessor harmless from and against any and all claims, demands, liabilities, costs and expenses, including reasonable counsel fees incurred by Lessor in reviewing or defending such claims, demands, liabilities, costs and expenses, asserted by third parties or Lessee, its agents, employees, guests or invitees and arising out of or by reason of any breach or violation by the Lessee of the provisions of this Section.

Section 11 - Assignment - Sublease.

11.1 The Lessee shall not, without written consent of the Lessor, assign the lease or sublease the Premises, in whole or in part except as to any entity which is partially or wholly owned by Lessee, which may be without Lessor's consent. Lessor shall not unreasonably withhold or delay consent. Notwithstanding any such sublet or assignments, the obligations of Lessee hereunder shall not be released by assignment or sublet Lessee shall nevertheless remain liable as a surety to Lessor for the full payment of rent hereunder and Lessee shall assign such assignment or sublease as additional security for the performance of this lease. In addition, should Lessee sublet the Premises for a rental amount in excess of the rent hereunder, Lessor shall be entitled to one-half (1/2) of said excess amount as additional rent hereunder after Lessee is reimbursed for all direct costs of subletting hereunder including, but not limited to, leasing commissions, leasehold improvements, advertising, and legal fees. The interest of Lessee in this lease is not assignable by operation of law without the written consent of Lessor which shall not be unreasonably withheld.

11.2 Notwithstanding anything provided herein, in the event of subtenancy or assignment, Lessee shall provide Lessor with the correct and updated name and mailing address of every assignee or subtenant, and the requirements of any and all Notices to Lessee in this lease shall be sufficiently satisfied if forwarded in writing to the subtenant or assignee at the address given. In the event of Lessee's default under this lease, should subtenant or assignee, at it option, cure such defect or default, the Lessee shall not be relieved of future obligations hereunder.

Section 12 - Taxes and Assessments. The expense portion of the rent shall include Lessee's proportionate share of all real property taxes and assessments, including, but not limited to, any sewer assessments during the lease term, which are billed on the Lot and the Building.

Section 13 - Mechanic's Lien. In the event of the filing in the Hillsborough County Registry of Deeds of any notice of a builder's, supplier's or mechanic's lien on the Premises arising out of any work performed by or on behalf of the Lessee, the Lessee shall either cause such lien to be discharged or released within thirty (30) days or shall within ten (10) days initiate legal proceedings to test the validity of the lien claimed; and if the Lessee shall initiate legal proceedings to test the validity of the lien, the Lessee shall within thirty (30) days cause such lien to be discharged or released by the posting of bond or otherwise and shall completely indemnify the Lessor against any such claim or lien and all costs of such proceedings wherein the validity of such lien is contested by the Lessee. This Section 13 shall not be applicable to Lessee if the lien is caused by Lessor's acts or omissions.

Section 14 - Eminent Domain. In the event that the Premises shall be lawfully condemned or taken by any public authority either in their entirety or in such proportion that they are no longer suitable for the intended use by the Lessee, this lease shall terminate at the election of Lessor or Lessee on the date when either ownership or possession of the Premises shall be taken by such public authority, and Lessor and Lessee hereto shall be relieved of any further obligation to each other. The Lessee shall be liable for and shall promptly pay to the Lessor any rent then in arrears. In the event the taking removes the Lessee from the Premises, the Lessor shall promptly rebate to the Lessee a pro rata portion of any rent paid in advance. In the event of a partial taking and the portion of the Premises so condemned or taken is such that the remaining Premises are still suitable for the intended use by the Lessee, as reasonably determined by Lessor, this lease shall continue in effect in accordance with its terms and a portion of the rent shall abate equal to the proportion of the rental value of the Premises so condemned to be taken. In the event of any taking, partial or complete, the award for the property so condemned or taken shall be apportioned between the Lessor and the Lessee so that the Lessor shall receive the then value of his reversionary interest in the Premises plus the then value of the future rents due under the terms of this lease if such taking had not occurred, and the Lessee shall receive the then value of its leasehold interest as may be awarded, including the then value of any mechanical installations, equipment, and appurtenances, if any, were constructed or installed by the Lessee after the beginning of the term hereof and are deemed not to be owned by the Lessor as provided elsewhere in this lease.

Section 15 - Liability. The Lessor shall not be liable to the Lessee for any injury or harm to any person occurring on or about the Premises or those common areas of the Lot or the Building, including ways, sidewalks, or common areas, or for injury or damage to the Premises or to any property of the Lessee or to any property of any third person, firm, association, or corporation on or about the Premises or the Lot or the Building, including ways, sidewalks, or common areas, <u>except</u> such as may be caused by the negligence of the Lessor, his servants or agents, and which Lessee could not reasonably prevent, in which case, Lessor will indemnify Lessee from liability attributed to said negligence. Lessor shall be indemnified by Lessee and held harmless against any and all liability and damages and from and against any and all suits, claims, and demands of any kind or nature, by, from and on behalf of any person, firm, association or corporation, which is an officer, director, employee, agent, contractor, guest or invitee of Lessee, arising out of or based upon any incident, occurrence, injury or damage which shall or may happen on or about the Premises or the common areas of the Building or Lot, including ways, sidewalks, or common areas, and from and against any matter or thing growing out of the condition, maintenance, repair, alteration, use, occupation or operation of the Premises or the common areas of the Lot or Building, including ways, sidewalks, or common areas, or the installation of any property therein or the removal of any property therefrom except such as may be caused by the negligence of the Lessor, his servants or agents.

Section 16 - Liability Insurance. The Lessor shall throughout the term hereof procure and carry at the expense of Lessee comprehensive Premises liability insurance on the Lot and Building including the Premises with an insurance company authorized to do business in New Hampshire which expenses is incorporated in the list of operating expenses identified on **Exhibit C** and is to be included in the base rent as set forth in Section 2 of this lease. Lessee shall have the right to review the terms of insurance coverage; provided, however, upon request to Lessor such insurance shall be carried in the name of and for the benefit of the Lessor and Lessee as their interests may apply, but shall be so endorsed as to create the same liability on the part of the insurer as though separate policies had been written for the Lessor and Lessee, providing coverage of at least $2,000,000.00 for any single injury coverage and $3,000,000.00 for combined single bodily injury and property damage in the aggregate. In the event such insurance shall not specifically insure Lessee against any and all liability assumed by it under Section 15 of this lease, Lessee shall procure and maintain the same, at its expense, naming Lessor as additional insured, as well as a policy or policies for any liability imposed by law. The Lessee shall furnish to the Lessor, at its request, a certificate of such insurance which shall provide that the insurance indicated therein shall not be canceled without at least ten (10) days' written notice to the Lessor and Lessee. In the event Lessee shall at any time fail to perform its obligation under this section and after giving Lessee 30 days' written notice of such default hereunder, at the option of the Lessor, the Lessor may obtain the insurance for the Lessee, in which event Lessor shall promptly remit to Lessee any invoice for premiums received by it for this insurance and Lessee shall promptly pay the same directly to Lessor within fifteen (15) days of receipt thereof, as additional rent. Upon receipt of a copy of notice of cancellation of any insurance which is the responsibility of Lessee hereunder, the Lessor may pay the premium necessary to reinstate the same. The Lessee shall promptly and immediately repay the Lessor for the cost of the premium. Payment of the premium by Lessor shall not be deemed a waiver or release by Lessor of default of Lessee.

Section 17 - Fire and Extended Coverage Insurance.

17.1 The Lessor shall procure and continue in force during the term hereof for the benefit of Lessor, such amount of fire and extended coverage insurance upon the Premises in an amount deemed adequate by the Lessor not to exceed 100% of replacement cost. Lessee shall have the right to review the terms of coverage provided hereunder upon request to Lessor. Contents insurance shall be the responsibility of the Lessee, and the Lessor shall not be liable to the Lessee for loss or damage from any cause whatsoever to production machinery and equipment, furniture, furnishings, movable trade fixtures, inventory, work-in process and other personal property of the Lessee or of others in the Premises, except such as may be caused by the act, omission or negligence of the Lessor, his servants, or agents.

17.2 If and to the extent permitted without prejudice to any rights of the Lessee under the applicable insurance policies, the Lessor shall be held free and harmless from liability for loss or damage to personal property of the Lessee in the Premises by fire, the extended coverage perils, water leakage, sewer problems, sprinkler leakage, vandalism and malicious mischief, except where such loss or damage be the result of the negligent or intentional conduct of the Lessor, his employees or agents. This subsection does not impose any added obligation or expense upon the Lessee nor require that it carry any insurance of any kind and is to be construed only as a limitation upon the rights of the insurance carriers to subrogation.

Section 18 - Destruction of Premises. In the event that the Premises shall be totally destroyed by fire or other casualty including acts of God, an act of the public enemy or governmental action, whether insured against or not, or shall be so damaged that repairs and restoration cannot be accomplished by both (a) within a period of one hundred twenty (120) days, and (b) more than ninety (90) days prior to the expiration of the term hereof, including any renewal term for which the option therefor shall have been exercised, or (c) without cost in excess of the insurance proceeds available, if any, this lease may be terminated at the election of Lessee or Lessor in the event of (a) and (b) and Lessor in the event of (c), and each party shall be relieved of any further obligation to the other except that the Lessee shall be liable for and shall promptly pay the Lessor any rent then in arrears or the Lessor shall promptly pay or rebate to the Lessee a pro rata portion on any rent or additional rent paid in advance and the Lessee shall assign any and all of its right, title and interest to the insurance proceeds for such damage to the Lessor. In the event the lease is not terminated as provided above, this lease shall continue in effect and Lessor and Lessee, as their respective obligations may apply, shall repair the Premises and may use the proceeds of the insurance which might be applicable, if any, in doing so. In the event such repair exceeds the cost of insurance available, if any, and Lessor nevertheless elects to repair or restore the portion of the Premises for which it is obligated, and said repair or restoration can meet conditions (a) and (b) above, this lease shall continue in effect in accordance with its terms and the Lessor shall accomplish such repairs and restoration as promptly as practicable (utilizing therefor the proceeds of any insurance which might be applicable thereto without any apportionment therefor for damages to the leasehold interest created by this Indenture). Until such repairs and restoration by Lessor have been accomplished, a portion of the rent shall abate equal to the proportion of the Premises rendered unusable by the damage; provided, however, that in the event the Lessor shall not complete the repairs and restoration within one hundred twenty (120) days of the event of damage, the Lessee at its option may terminate this Lease and the remaining obligations shall be limited as provided hereinabove in this section. In no event shall the obligations of the Lessee or Lessor hereunder to repair and restore exceed in amount the sum of the insurance proceeds paid to him and/or released to him by any mortgagee with which settlement was made, and the Lessee and Lessor agrees to execute and deliver to each other all instruments and documents necessary to evidence the fact that the right to such insurance proceeds is vested in the Lessee or Lessor as the case may be. Nothing herein shall be construed to limit Lessor's rights to waive the heretofore described limitation on repair costs. The Lessor shall notify the Lessee within thirty (30) days following the date of any such damage or destruction whether or not repairs and restoration can be accomplished both (a) within a period of one hundred twenty (120) days and (b) more than ninety (90) days prior to the expiration of the term hereof, including any renewal term for which the option therefore shall have been exercised.

Section 19 - Repossession by Lessor. At the expiration of this lease or upon the earlier termination of this lease for any cause herein provided for, the Lessee shall peaceably and quietly quit the Premises and deliver possession of the same to the Lessor, together with all alterations, additions, improvements, mechanical installations, equipment and appurtenances thereto not removed from the Premises pursuant to Sections 7 and 8 hereof. The Lessee covenants and agrees that at the time of delivery of possession to the Lessor at the expiration of this lease, any and all alterations, additions, improvements, mechanical installations, equipment and appurtenances constructed or installed on or in the Premises at its expense after the beginning of the term hereof and which have become the property of the Lessor pursuant to Sections 6, 7 and 8 hereof shall be free and clear of any mortgage, lien, pledge or other encumbrance or charge.

Section 20 - Subordination. The Lessee agrees that this lease and all rights of the Lessee hereunder are and shall be subject and subordinate to the lien of (a) any mortgage or deed of trust constituting a first or second lien existing on the Building and Lot, or any part thereof, at closing, and (b) the lien of any mortgage or deed of trust hereafter executed to provide permanent financing or refinancing of the Building and Lot, and (c) any renewal, modification, consolidation or extension of any mortgage or deed of trust referred to in clause (a) or clause (b). The Lessee shall, upon demand at any time or times, within thirty (30) days of the demand, execute, acknowledge and deliver to the Lessor any and all instruments that may be necessary or proper to subordinate this lease and all rights of the Lessee hereunder to the lien of any mortgage, deed of trust or other instrument referred to in clause (b) or clause

(c) of the preceding sentence. Lessor shall pay the costs, including reasonable attorney's fees, that may be associated with the preparation of the subordination document, however, Lessee shall be responsible for its own attorney's fees for review of the same.

Notwithstanding the foregoing, Lessee shall not be required to execute any instrument described above unless the Mortgagee simultaneously executes and delivers to Lessee a standard non-disturbance agreement permitting Lessee to continue to occupy the Premises under the terms and conditions of the Lease as long as it is not in default under the Lease.

Section 21 – Default

21.1 In the event (i) any installment of rent or additional rent shall not be paid within ten (10) business days after the same shall be due and payable; or (ii) the Lessee fails in or refuses the performance or observance of any other covenant or condition in this Indenture and such failure or refusal remains unremedied for twenty (20) days after written notice thereof has been given to the Lessee by the Lessor, except that in connection with a failure or refusal not susceptible of being cured with due diligence within twenty (20) days the time within which Lessee shall cure the same shall be extended for such time as may be necessary to cure the same with all due diligence, provided Lessee commences promptly and proceeds diligently to cure the same, or (iii) the holder of a security interest in all or substantially all of the personal property utilized by the Lessee in, or generated by the operations of the Lessee in, the Premises forecloses the same or notifies Lessee of its exercise of rights under a security instrument to claim possession of the assets; or (iv) the Lessee (or any one of the Lessees) makes an assignment for the benefit of creditors, files a voluntary petition in bankruptcy, is adjudicated insolvent or bankrupt, petitions or applies to any tribunal for any receiver or any trustee of or for the Lessee or any substantial part of its property, commences any proceeding relating to the Lessee or any substantial part of its property under any reorganization, arrangement, readjustment of debt, dissolution or liquidation law statute of any jurisdiction, whether now or hereafter in effect, or there is commenced against the Lessee (or any one of the Lessees) any such proceeding which remains undismissed for a period of sixty (60) days, or any order approving the petition in any such proceeding is entered, or the Lessee (or any one of the Lessees) by any act indicates its consent to, or acquiescence in, any such proceeding or the appointment of any receiver of or trustee for the Lessee or any substantial part of its property, or suffers any such receivership or trusteeship to continue undischarged for a period of sixty (60) days--then, in any such events, Lessee shall be deemed in default and Lessor shall have the right to terminate this lease upon the delivery in writing to Lessee of written notice of the default and Lessee's failure to thereafter remedy and timely cure the default within twenty (20) days of the date of such notice. Then and there upon expiration of the twenty (20) days without cure, Lessee may deliver written notice of termination of the lease and <u>without further notice from Lessor</u> the term of this lease shall expire as fully and completely as if that day were the day herein definitely fixed for the expiration of said term and Lessee shall then quit the Premises and surrender the same, <u>but shall remain liable as hereafter provided</u>. If the notices provided in this section have been delivered and the term hereof shall expire as aforesaid, then the Lessor shall be entitled to possession of the Premises and the Lessor may immediately or at any time thereafter and without demand or notice enter upon the Premises or any part thereof in the name of the whole and repossess the same as of the Lessor's former estate and expel the Lessee and those claiming through or under the Lessee including assigns or sublessees and remove their effects forcibly if necessary, without being deemed guilty of any manner of trespass and without prejudice to any remedies which might otherwise be used for arrears of rent or preceding breach of covenant. The Lessee covenants that, in case of either (i) any uncured default hereunder, or (ii) in case of termination or dispossession of Lessee or occupants of the Premises under the provisions of this agreement or statute; the Lessee shall become immediately liable to the Lessor in an amount equal to the total rent reserved for the balance of the term together with such reasonable expenses as Lessor may incur for legal expenses, attorneys' fees, brokerage fees, or other reasonable costs and expenses related in any way to the notice of default, demand for rent, notice of termination, process of eviction, collection of rent, termination of lease, putting the Premises in good order or for preparing same for re-rental. This sum shall be due immediately upon default and/or termination of lease and remain and continue as a liability of the Lessee; however, the Lessee shall thereafter be entitled to reimbursement from Lessor for the net amounts (after deducting the expenses of repair, renovation or demolition) which the Lessor realizes, from the reletting of the Premises.

21.2 After any default and/or termination hereunder, the Lessor shall have the right, but not the obligation to waive the right of demand for immediate payment of the damages hereunder and allow the Lessee to satisfy the deficiencies in rent as they become due. In the event of termination of the lease and eviction of the Lessee, Lessor shall be obligated to relet the leased Premises upon such terms as he may be able, and if a sufficient sum shall not be thus realized to yield the net rent required under this lease, the Lessee shall be obligated to satisfy and pay all deficiencies as they may become due during each month of the remaining term of this lease, or the Lessor may require the Lessee to pay to him as damages such lump sum as will suffice to make the Lessor whole for the balance of the then term of this lease. Nothing herein contained shall be deemed to require the Lessor to await the date hereon this lease, or the term hereof, would have expired had there been no default by the lessee, or no such termination or cancellation. The Lessee expressly waives service of any notice of intention to reenter and waives any and all right to recover or regain possession of the Premises, or to reinstate or redeem this lease as may be permitted or provided for under any statute or law now or hereafter in force and effect. The rights and remedies given to the Lessor in this lease are distinct, separate and cumulative remedies, and no one of them, whether or not exercised by the Lessor, shall be deemed to be in exclusion of any of the others herein or by law or equity provided. Nothing contained in this Section shall limit or prejudice the right of the Lessor to prove and obtain, in proceedings involving the bankruptcy or insolvency of, or a composition with creditors by, the Lessee, the maximum allowed by any statute or rule of law at the time in effect.

21.3 In the event of default by Lessee of its obligation to pay rent or additional rent hereunder within the time frames provided herein, in addition to other remedies provided hereinabove, Lessor shall have the right to demand a penalty fee of $1,000.00 per month for each event of default until said default is cured, which shall be paid by Lessee immediately upon receipt of such demand. Failure to pay the penalty fee shall constitute a default under 21.1(i) above.

21.4 Time is of the essence as to all dates included in this section.

Section 22 - Access to Premises. The Lessor or its representatives shall have free access to the Premises upon reasonable notice and at reasonable intervals during normal business hours for the purpose of inspection, or for the purpose of showing the Premises to prospective purchasers or tenants, or for the purpose of making repairs, which the Lessee is obligated to make hereunder but has failed or refused to make. In the event that Lessor intends to enter the Premises for the purpose of making repairs, Lessor shall, to the extent possible, make such repairs during regular business hours. Lessor agrees to do its work in a manner designed to minimize interference with and interruption of Lessee's use of the Premises. The preceding sentence does not impose upon the Lessor any obligation to make repairs for which the Lessee is responsible. During the six (6) months next preceding the expiration of this lease, the Lessor may keep affixed to any suitable part of the outside of the Building a notice that the Premises are for rent.

Section 23 - Holding Over. In the event the Lessee shall hold over after the expiration of the term hereof, such holding over shall not extend the term of this lease but shall create a month to month tenancy upon all the terms and conditions of this Indenture excepting that the rent shall automatically increase twenty-five percent (25%) more than the then existing rent.

Section 24 - Security Deposit. Purposely Omitted.

Section 25 - Hazardous Substances. Lessee shall not generate, store, dispose of or otherwise handle any hazardous substance, waste or materials or toxic waste or materials as the same may be defined under the laws or regulations of any agency of the State of New Hampshire or the United States government on the Premises, the Lot or in the Building in any fashion contrary to any federal, state or local statutes, laws, ordinances, rules and regulations, as the same may be described by federal, state or local laws. Lessee shall indemnify and save the Lessor harmless from and against any and all claims, demands, liabilities, costs and expenses including reasonable counsel fees, asserted by any third parties and arising out of or by reason of use by Lessee of the Premises for or in conjunction with the disposal of hazardous or toxic waste, substance or material. Lessee shall not be liable for any environmental hazards placed or caused to be placed on the Premises by Lessor or Lessor's servants or agents as directed by Lessor, unless done so at Lessee's request and without knowledge of said environmental hazard.

Section 26 - Notices. Any written notices, request or demand required or permitted by this Indenture shall, until either party shall notify the other in writing of a different address, be properly given if sent by certified or registered first class mail, postage prepaid and addressed as follows:

If to Lessor:	John P. Stabile, II, Manager HECOP III, LLC c/o Stabile Property Management 21 Manchester Street Merrimack, NH 03054
Copy to:	Morgan A. Hollis, Esquire Gottesman & Hollis P.A. 39 East Pearl Street Nashua, NH 03060 Facsimile: (603) 886-0380
If to Lessee:	Pennichuck Water Works, Inc. 25 Manchester Street Merrimack, NH 03054 Attention: Donald Correll, CEO
Copy to:	Stephen J. Frasca, Esquire Mazerolle & Frasca, P.A. 2 Auburn Street Nashua, NH 03064-2416 Facsimile: (603) 889-4663

Section 27 - Succession. This Indenture shall be binding upon and inure to the benefit of the heirs, executors, administrators, successors and assigns of the parties hereto.

Section 28 - Waiver. Any consent, express or implied, by the Lessor to any breach by the Lessee of any covenant or condition of this lease shall not constitute a waiver by the Lessor of any prior or succeeding breach by the Lessee of the same or any other covenant or condition of this Lease. Acceptance by the Lessor of rent or other payment with knowledge of a breach of or default under any term hereof by the Lessee shall not constitute a waiver by the Lessor of such breach or default.

Any consent, express or implied, by the Lessee to any breach by the Lessor of any covenant or condition of this lease shall not constitute a waiver by the Lessee of any prior or succeeding breach by the Lessor of the same or any other covenant or condition of this Lease.

Section 29 - Governing Law. This Indenture shall be construed and interpreted in accordance with the laws of the State of New Hampshire and questions or disputes concerning interpretation shall be determined in the court of appropriate jurisdiction.

Section 30 - Force Majeure. Except as expressly provided herein, there shall be no abatement, diminution or reduction of the rent or other charges payable by the Lessee hereunder based upon, or claimed as a result of, any Act of God, act of the public enemy, governmental action, or other casualty, cause or happening beyond the control of the parties hereto.

Section 31 - Counterparts. This Indenture may be executed in two (2) or more counterparts, each of which shall be deemed to be an original, and all collectively but one and the same instrument.

Section 32 - Broker. The parties hereto recognize that no broker or agent brought about the effect of this lease and no brokerage fees are owed to or claimed by any party. Lessee represents it has dealt with no brokers or agents and that to its knowledge there are no brokers or agents able to make a claim for a broker's fee or commission. Lessee will indemnify HECOP III, LLC against any brokerage claims by any other parties.

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

LESSOR:
HECOP III, LLC

/s/ Ruth C. Chapdelaine
Witness

By: /s/ John P. Stabile, II
Its: General Partner

LESSEE:
PENNICHUCK WATER WORKS

/s/ Bonalyn J. Hartley
Witness

By: /s/ Donald L. Correll
Its: President & CEO

STATE OF NEW HAMPSHIRE
COUNTY OF HILLSBOROUGH

On this the 4'th day of May, 2004, before me personally appeared John P. Stabile, II, General Partner of HECOP III, LLC, and being duly authorized so to do, executed the foregoing instrument as his free and voluntary act and deed on behalf of HECOP III, LLC.

Before me,

/s/ Ruth C. Chapdelaine
Justice of the Peace/Notary Public

STATE OF NEW HAMPSHIRE
COUNTY OF HILLSBOROUGH

On this the 29'th day of April, 2004, before me personally appeared Donald L. Correll, President & CEO of Pennichuck Water Works, Inc., and being duly authorized so to do, executed the foregoing instrument as his free and voluntary act and deed on behalf of Pennichuck Water Works, Inc.

Before me,

/s/ Bonalyn J. Hartley
Justice of the Peace/Notary Public

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FOR EXHIBIT A

OF INDENTURE OF LEASE

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FOR EXHIBIT B

OF INDENTURE OF LEASE

EXHIBIT C

OPERATING EXPENSES

The term "Operating Expenses" includes all expenses incurred by Lessor with respect to the maintenance and operation of the Building of which the Premises are a part, including but not limited to the following:

i) maintenance, repair and replacement costs;

ii) electricity, fuel, water, sewer, gas and other utility charges;

iii) janitorial services (in common areas only), and trash and snow removal;

iv) landscaping and pest control;

v) management fees, wages and benefits payable to employees of Lessor whose duties are directly connected with the operation and maintenance of the Building;

vi) all services, supplies, repairs, replacements or other expenses for maintaining and operating the Building or project, including parking and common areas;

vii) all real property taxes and installments of special assessments, including sewer assessments, dues and assessments by means of deed restrictions and/or owner associations, including transportation management associations which Lessor is required to join which accrue against the Building of which the Premises are a part during the term of this Lease; notwithstanding the foregoing, the definition of taxes shall in no way include gross receipts taxes, transfer taxes, or change in ownership taxes;

viii) and all insurance premiums Lessor is required to pay or deems reasonably necessary to pay, including public liability insurance with respect to the Building.

The term "Operating Expenses" shall not include:

i) the cost of any leasing commissions, advertising or promotional expenses in marketing space, and of any "tenant allowances" or other costs in preparing space for occupancy and any alterations, decorations or improvements made to leasable space in the Building;

ii) amounts paid for professional services in connection with the leasing of space or in connection with relationships or disputes with other lessees within the Building, former lessees, prospective lessees or other occupants of the Building;

iii) debt amortization or financing or refinancing costs;

iv) expenses in the nature of interest, fines and penalties;

v) rent, additional rent and other charges payable under any ground lease or any lease superior to this Lease;

vi) any repairs or alterations made by Lessor to comply with laws, regulations, codes or ordinances existing as of the execution hereof;

vii) depreciation;

viii) costs of paintings, sculptures or other artwork;

ix) expenses arising from the negligence of Lessor, its agents, employees or contractors;

x) charitable contributions;

xi) overtime utility charges for utilities benefiting other lessees within the Building;

xii) costs of curing defects in construction;

xiii) costs relating to retail stores or to other specialty services such as health clubs or cafeterias; and

The cost of any repairs or replacements which, under generally accepted accounting principles, would be capitalized, shall be amortized on a straight-line basis and taken as Operating Expenses over the useful life of the item in question, but only to the extent that such expenditure would otherwise reduce Operating Expenses.

The calculation of Lessee's Base Year Operating Expenses, including all taxes, shall assume a Building occupancy rate of 100% and full tax assessment. Annually, after the Base Year, Lessee shall pay its Lessee's Pro Rata Share of the actual increases in the Operating Expenses in excess of the Operating Expenses for such Base Year ("Operating Expenses Increase").

The estimated Operating expense for the Premises for the calendar year 2004 are listed on Schedule 1 attached hereto and incorporated herein by reference.

SCHEDULE 1
PROJECT OPERATING EXPENSES AND
REAL ESTATE TAXES

Repairs & Maintenance	$ .15
Elevator	.04
Landscape	.25
Snow	.10
Trash	.10
Insurance	.10
Taxes	1.75
Management Fee	.35
Sewer & Water	.30
Janitorial	.25
Subtotal Operating Expenses (subject to adjustment under Section 2.5 of Lease)	$3.39
Allowance for Electricity & Natural Gas (see Exhibit D)	$1.82
Total Projected Operating Expenses	**$5.21**

EXHIBIT D

ELECTRICITY AND NATURAL GAS UTILITY USAGE ALLOWANCE

It is agreed that the cost of the provision of all electricity and natural gas (the "Utilities") for the use and occupancy of the Premises (and all other occupied office space within the Building) under normal and customary usage, will not exceed $1.82 per rentable square foot per year. The Premises is currently serviced by its own electrical service lines and meters and the actual consumption and cost of the provision of electricity can be monitored. The provision of natural gas to the entire Building and the Lot may be determined by monthly invoices generated by the Utilities to the Lessor. In the event the total cost of Utilities to the Premises exceeds $1.82 per square foot per year, the Lessee shall pay the cost thereof. The adjustment shall be calculated during the month of January based upon the preceding year's actual costs, beginning with January 1, 2005, following the execution date of the Lease. The Lessee shall be billed immediately for any costs exceeding $1.82 per square foot and payment shall be made as additional rent to the Lessor within fifteen (15) days of receipt of the billing by the Lessee. The allowance of $1.82 per square foot shall be reviewed annually thereafter, based upon the average annual percentage increase of the cost of electricity and the cost of natural gas from January 1 through December 31 of the preceding year (or in the case of the first calendar year of the lease term, based upon the portion of the year annualized) unless earlier usage indicates substantial variance, in which case adjustment shall be immediate within fifteen (15) days of receipt of the billing.

Exhibit 31.1

SECTION 302 CERTIFICATION OF THE PRESIDENT AND PRINCIPAL EXECUTIVE OFFICER

I, Donald L. Correll, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pennichuck Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

    c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2004

/s/ Donald L. Correll
Donald L. Correll, President and
Principal Executive Officer

Exhibit 31.2

SECTION 302 CERTIFICATION OF THE VICE PRESIDENT, TREASURER AND PRINCIPAL FINANCIAL OFFICER

I, Charles J. Staab, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pennichuck Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

    c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2004

/s/ Charles J. Staab
Charles J. Staab, Vice President, Treasurer and
Principal Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 of Pennichuck Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald L. Correll, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.

Date: August 13, 2004

/s/ Donald L. Correll
Name: Donald L. Correll
Title: President and Chief Executive Officer

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 of Pennichuck Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles J. Staab, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.2 is expressly and specifically incorporated by reference in any such filing.

Date: August 13, 2004

/s/ Charles J. Staab
Name: Charles J. Staab
Title: Vice President, Treasurer and
Chief Financial Officer

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2004

OR

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

Commission File Number 0-18552

PENNICHUCK
CORPORATION

PENNICHUCK CORPORATION

(Exact name of registrant as specified in its charter)

New Hampshire	**02-0177370**
(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)

4 Water Street
Nashua, New Hampshire 03061
(Former address of principal executive offices)

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 __X__ NO ______

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
YES ______ NO __X__

The number of shares of the registrant's common stock, $1 par value, outstanding as of November 9, 2004 was 2,412,090.

PENNICHUCK CORPORATION AND SUBSIDIARIES
FORM 10-Q
September 30, 2004

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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	September 30, 2004 (Unaudited)	December 31, 2003
ASSETS		
Property, plant and equipment	$118,795	$115,486
Less accumulated depreciation	(31,040)	(29,759)
Net property, plant and equipment	87,755	85,727
Assets held for sale	734	-----
Current Assets		
Cash and cash equivalents	946	391
Accounts receivable, net of allowance of $37 in 2004 and 2003	3,564	2,995
Refundable income taxes	724	1,145
Materials and supplies, at cost	890	726
Prepaid expenses and other current assets	438	519
	6,562	5,776
Other Assets		
Deferred land costs	926	849
Deferred charges and other assets	3,961	3,634
Note receivable	1,224	1,224
	6,111	5,707
TOTAL ASSETS	$101,162	$97,210
STOCKHOLDERS' EQUITY AND LIABILITIES		
Stockholders' Equity		
Common stock - $1 par value; authorized – 11,500,000 shares Issued - 2,413,042 and 2,397,092 shares, respectively	$2,413	$2,397
Outstanding – 2,412,090 and 2,396,140 shares, respectively		
Additional paid in capital	15,594	15,208
Retained earnings	12,403	13,178
Accumulated other comprehensive income	(344)	(473)
Less treasury stock, at cost; 952 shares	(138)	(138)
	29,928	30,172
Minority interest	7	8
Long-term debt, less current portion	17,343	26,879
Current Liabilities		
Line of credit	5,000	2,000
Current portion of long-term debt	9,868	368
Accounts payable	500	913
Accrued interest payable	442	370
Other accrued liabilities	1,926	1,773
	17,736	5,424
Deferred Credits and Other Reserves		
Contributions in aid of construction	23,003	21,895
Deferred income taxes	9,156	8,552
Deferred gain on land sale	1,224	1,224
Other liabilities and deferred credits	2,765	3,056
TOTAL STOCKHOLDERS' EQUITY & LIABILITIES	$101,162	$97,210

See notes to condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues				
Water utility operations	$5,648	$5,713	$14,756	$14,333
Real estate operations	87	147	211	876
Contract operations	494	519	1,439	1,253
Other	12	15	41	40
	6,241	6,394	16,447	16,502
Operating Expenses				
Water utility operations	4,034	3,722	11,280	10,589
Real estate operations	52	25	133	65
Contract operations	443	438	1,279	1,086
Other	16	-----	34	-----
	4,545	4,185	12,726	11,740
Operating Income	1,696	2,209	3,721	4,762
Eminent domain taking and other expenses	(299)	(51)	(1,035)	(740)
Other income	12	9	19	51
Allowance for funds used during construction	48	-----	48	-----
Interest expense	(516)	(493)	(1,517)	(1,473)
Income Before Provision for Income Taxes and Minority Interest	941	1,674	1,236	2,600
Provision for income taxes	365	652	466	1,006
Net Income Before Minority Interest	576	1,022	770	1,594
Minority Interest in (Earnings) of Westwood Park LLC, net of tax	1	-----	1	(34)
Net Income	577	1,022	771	1,560
Other comprehensive income, net of tax:				
Unrealized gain on derivative instruments	38	42	129	71
Comprehensive Income	$615	$1,064	$900	$1,631
Earnings per Common Share:				
Basic	$ .24	$ .43	$ .32	$ .65
Diluted	$.24	$ .43	$.32	$ .65
Weighted Average Common Shares Outstanding:				
Basic	2,400,278	2,391,439	2,397,633	2,391,439
Diluted	2,409,250	2,403,107	2,405,042	2,399,961
Dividends Paid per Common Share	$.215	$.215	$.645	$.625

See notes to condensed consolidated financial statements

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Nine Months Ended	
	September 30, 2004	September 30, 2003
Operating Activities:		
Net income	$771	$1,560
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,314	2,132
Gain on sale of land	-----	(257)
Amortization of deferred investment tax credits	(25)	(25)
Provision for deferred income taxes	518	1,058
Change in other assets and liabilities	(472)	(435)
Net cash provided by operating activities	3,106	4,033
Investing Activities:		
Purchases of property, plant & equipment	(3,821)	(5,637)
Contributions in aid of construction	114	144
Decrease in restricted cash	-----	151
Net decrease in notes receivable	-----	605
Proceeds from sale of land, net	-----	257
Net change in investment in real estate partnerships and deferred land costs	(265)	(380)
Net cash used in investing activities	(3,972)	(4,860)
Financing Activities:		
Advances on line of credit	3,000	-----
Payments on long-term debt	(107)	(92)
Proceeds from long-term borrowings	71	1,399
Proceeds from issuance of common stock	3	6
Dividends paid	(1,546)	(1,495)
Net cash provided by (used in) financing activities	1,421	(182)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	555	(1,009)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	391	2,444
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$946	$1,435

Supplemental Cash Flow Information: Interest paid was $1,371,000 and $1,518,000 for the nine months ended September 30, 2004 and 2003, respectively. Income taxes paid were $4,000 and $129,000 for the nine months ended September 30, 2004 and 2003, respectively. Non-cash items for the nine months ended September 30, 2004 and 2003 included contributions in aid of construction totaling approximately $1.3 million and $619,000, respectively. Additionally, non-cash items for the nine months ended September 30, 2003 included the deferred gain on a land sale of approximately $1.2 million and the related long-term note receivable as discussed in Note 6 of the Notes to Condensed Consolidated Financial Statements.

See notes to condensed consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
September 30, 2004

Note 1 – Background

These financial statements include the accounts of Pennichuck Corporation (the "Company") and its wholly-owned subsidiaries, Pennichuck Water Works, Inc. ("Pennichuck"), Pittsfield Aqueduct Company, Inc. ("Pittsfield"), Pennichuck East Utility, Inc. ("Pennichuck East"), The Southwood Corporation ("Southwood") and Pennichuck Water Service Corporation (the "Service Corporation"). The financial statements also include the accounts of Westwood Park LLC ("Westwood") in which Southwood owns a 60% majority interest. All significant intercompany transactions have been eliminated in consolidation.

Note 2 – Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-Q and Regulation S-X pertaining to interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. The Balance Sheet amounts shown under the December 31, 2003 column have been derived from the audited financial statements of the Company as contained in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

(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) *Reclassifications*

Certain amounts for the nine months ended September 30, 2003 have been reclassified to conform with the 2004 financial statement presentation. These reclassifications had no effect on net income and relate primarily to the reclassification of certain payments on a note receivable from "net cash provided by operating activities" to "net cash used in investing activities" in the Condensed Consolidated Statements of Cash Flows.

(d) *Stock-Based Compensation*

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148, *"Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment to FASB Statement No. 123"* ("SFAS 148") which provides for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires prominent disclosures in both interim and annual financial statements about the method of accounting for stock-based employee compensation. At this time, the Company does not intend to change to the fair value based method of accounting for stock-based compensation. On a pro forma basis, the Company's net income and earnings per share would have been reduced to the following amounts had compensation cost for the plan been determined consistent with SFAS No. 123, *"Accounting for Stock-Based Compensation"*.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(In thousands, except per share data)			
Net income:				
As reported	$ 577	$ 1,022	$ 771	$ 1,560
Less:				
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related taxes	(9)	(8)	(218)	(8)
Pro forma net income	$ 568	$ 1,014	$ 553	$ 1,552
Basic net income per share:				
As reported	$ 0.24	$ 0.43	$ 0.32	$ 0.65
Pro forma	$ 0.24	$ 0.42	$ 0.23	$ 0.65
Diluted net income per share:				
As reported	$ 0.24	$ 0.43	$ 0.32	$ 0.65
Pro forma	$ 0.24	$ 0.42	$ 0.23	$ 0.65

Note 3 – New Accounting Pronouncements

In March 2004, the FASB issued an Exposure Draft for a Proposed Statement of Financial Accounting Standards, "Share-Based Payment." This proposed Statement addresses the accounting for transactions in which a company receives employee services in exchange for (a) equity instruments of the company or (b) liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. This proposed Statement would also eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25, "Accounting for Stock Issued to Employees," and generally would require that such transactions be accounted for using a fair-value-based method. This Exposure Draft was open for public comment until June 30, 2004. During its deliberations to address the comment letters, the FASB has preliminarily indicated that the effective date for this statement would be for periods beginning after June 15, 2005. The Company is currently assessing the impact of this proposed Statement on its share-based compensation programs.

Note 4 – Benefit Plans

Pension Plan

The Company sponsors a non-contributory, defined benefit pension plan (the "Plan") that covers substantially all full-time employees. The benefits are formula-based, giving consideration to both past and future service as well as participant compensation levels. The Company's funding policy is to contribute annually allowable amounts deductible for federal tax purposes. 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. In September 2004, the Company contributed to the Plan 15,750 shares of its common stock having a then aggregate market value of approximately $400,000.

Effective for the quarter ended March 31, 2004, SFAS No. 132R, *"Employers' Disclosures about Pension and Other Postretirement Benefits"*, requires disclosure of the net periodic pension and postretirement benefit cost. Components of net periodic pension benefit cost were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	($000's)			
Service cost	$ 52	$ 40	$ 187	$ 119
Interest cost	61	53	219	160
Expected return on plan assets	(68)	(50)	(245)	(149)
Amortization of prior service cost	-	-	-	-
Amortization of transition asset	(3)	(3)	(11)	(8)
Recognized net actuarial loss	10	11	35	35
Net periodic benefit cost	$ 52	$ 51	$ 185	$ 157

Other Post-employment Benefits

The Company also provides post-retirement medical benefits to current and retired employees through separate post-retirement medical plans for its union and non-union employees. These benefits include health insurance coverage and reimbursement of certain Medicare premiums for certain retirees.

Additionally, in 2003, the Company began offering, through a separate plan, post-employment medical benefits for employees who retire prior to their normal retirement age and who have met certain age and service requirements. The benefits under this plan allow continuity of coverage at group rates from the employee's retirement date until the employee becomes eligible for Medicare.

There were no contributions to these Plans during the three and nine months ended September 30, 2004. The Company anticipates that it will contribute approximately $75,000 for these benefits in 2004.

Components of net periodic post-retirement and post-employment benefit costs were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	($000's)			
Service cost	$ 36	$ 13	$ 93	$ 39
Interest cost	32	16	83	46
Expected return on plan assets	(13)	(5)	(36)	(14)
Amortization of prior service cost	11	4	26	10
Amortization of transition asset	-	-	-	-
Recognized net actuarial loss	7	1	18	5
Net periodic benefit cost	$ 73	$ 29	$ 184	$ 86

The net periodic pension and other post-retirement benefit costs for the nine months ended September 30, 2004 were estimated based on the latest available participant census data. The Company's full actuarial valuation will be completed and finalized in the fourth quarter of 2004 at which time the cost amounts will be adjusted based on the final actuarial results.

In December 2003, the FASB issued Staff Position (FSP) 106-1, *"Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"* (the "Act"). The Act provides for prescription drug benefits for retirees over the age of 65 under a new Medicare Part D program. For employers like the Company, who currently provide retiree medical programs for former employees over the age of 65, there are potential subsidies available which are inherent in the Act. The Act potentially entitles these employers to a direct tax-exempt federal subsidy.

Pursuant to FSP 106-1, the Company has elected to defer recognition of the provisions of this Act for the nine months ended September 30, 2004. As a result, the provisions of the Act are not reflected in this disclosure or in the accompanying Condensed Consolidated Financial Statements.

In May 2004, the FASB issued FSP 106-2. This FSP provides guidance on the accounting for the effects of the Act. The guidance indicates that, when an employer initially accounts for the subsidy, the effect on the accumulated postretirement benefit obligation should be accounted for as an actuarial gain (assuming no plan amendments are made). In addition, since the subsidy would affect the employer's share of its plan's costs, the subsidy is included in measuring the costs of benefits attributable to current service. Therefore, the subsidy should reduce service cost when it is recognized as a component of net periodic postretirement benefit cost. This FSP became effective on July 1, 2004. The Company will reflect the implications of this FSP during the remaining portion of 2004 and recognize expected financial effects as prescribed by accounting standards in effect for subsequent reporting periods.

Note 5 – Commitments and Contingencies

Termination of Merger Agreement

On April 29, 2002, the Company entered into a definitive agreement with Philadelphia Suburban Corporation ("PSC") to merge into a wholly-owned subsidiary of PSC with shareholders of the Company receiving shares of PSC in the merger. The merger was subject to several conditions, including, among other things, approval by the shareholders of the Company and approval by the New Hampshire Public Utilities Commission ("NHPUC"). The review of the merger by the NHPUC and approval by the Company's shareholders was expected to occur in the first half of 2003.

However, on November 26, 2002, the Board of Aldermen of the City of Nashua, New Hampshire (the "City") adopted a resolution calling for a referendum to authorize the City to pursue the acquisition, by an eminent domain proceeding or otherwise, of all or a portion of Pennichuck's water system serving the residents of the City and others. The City's voters passed the referendum on January 14, 2003. On February 4, 2003, the Company announced that it had reached an agreement with PSC to terminate PSC's pending acquisition of the Company. The decision to terminate the merger agreement resulted from the City's ongoing efforts to acquire Pennichuck's utility plant and property by eminent domain. Expenses associated with the PSC merger transaction and related issues totaled approximately $231,000, consisting of legal and other fees relating to merger and regulatory approval, for the year ended December 31, 2003.

Under current Internal Revenue Code regulations, costs relating specifically to the merger transaction may be deductible for Federal income tax purposes in the year in which the merger is terminated. As a result, the Company realized approximately $1.5 million in tax-deductible merger-related costs for Federal income tax purposes in 2003.

Eminent Domain

On March 25, 2004, the City filed a petition with the NHPUC under the New Hampshire utility municipalization statute, NHRSA Ch. 38, seeking to take by eminent domain all of the utility assets of the Company's three utility subsidiaries. Under NHRSA Ch. 38, if the NHPUC makes a finding that it is in the public interest to do so, a municipality may take the assets of a utility providing service in that municipality. The NHPUC is also charged with determining the amount of compensation for the assets that it finds it is in the public interest for the municipality to take. The three Company utilities have challenged the extent of the assets that the City is seeking to take, arguing that the City does not have the authority to take any of the assets of Pennichuck East Utility, Inc. ("Pennichuck East") or Pittsfield Aqueduct Company, Inc. ("Pittsfield") or those assets of Pennichuck Water Works, Inc. ("Pennichuck") that are not necessary to provide service in the City. The City has opposed the Company utilities' position on the basis that the scope of the assets that the City may take is an issue that should be determined by the NHPUC based on the NHPUC's finding of the public interest. Oral arguments were presented on this issue on July 28, 2004, and on October 1, 2004 the NHPUC issued an order stating that it had found "sufficient legal basis for Nashua to pursue, at a minimum, the taking of portions of the PWW [Pennichuck] system by eminent domain, pursuant to RSA 38," but that there are "significant legal questions [regarding] whether, as a matter of law, Nashua may take the assets of PEU [Pennichuck East] and PAC [Pittsfield] and, for that matter, whether Nashua may take the assets of PWW [Pennichuck] that are not integral to the core system." The NHPUC's order directed the parties to submit

Note 5 – Commitments and Contingencies (Continued)

legal memoranda on these questions by October 25, 2004. It is not known when the NHPUC will issue an order regarding these questions. The NHPUC has also ordered the City to file written testimony regarding its proposed taking by November 22, 2004 to address, among other issues, whether the City's proposed taking is in the public interest. The NHPUC has scheduled a hearing for December 9, 2004 at which time the parties are to address, among other things, the schedule for discovery by the City to enable it to obtain information necessary to submit its case regarding valuation of the assets it proposes to take and the remainder of the case.

If the City is successful in obtaining a determination by the NHPUC that it should be allowed to take some or all of the utility assets of the Company utilities, the City is not required under NHRSA Ch. 38 to complete the taking and could ultimately choose not to proceed with the purchase of the assets. The Company cannot predict the ultimate outcome of these matters. It is possible that, if the acquisition efforts of the City are successful, the financial position of the Company would be materially impacted.

Prior to the City's filing of its eminent domain case at the NHPUC, the Company filed a Petition for Declaratory Judgment in New Hampshire Superior Court seeking a determination that the City had waited too long to seek condemnation authority from the NHPUC after obtaining a public vote on November 26, 2002 regarding municipalization of water utility assets as well as a determination that NHRSA Ch. 38 was unconstitutional on a number of grounds and, later, that the NHPUC proceeding ultimately filed by the City exceeded the scope of the assets that were properly the subject of an attempted taking by the City under NHRSA Ch. 38. On September 1, 2004, the Superior Court ruled adversely to the Company on a number of these issues, deferred to the NHPUC with regard to the issue relating to the scope of the assets that the City could seek to acquire, and determined that one of the constitutional claims raised by the Company should be addressed only after the proceeding at the NHPUC had concluded. On October 22, 2004, the Company filed an appeal with the New Hampshire Supreme Court on a number of its claims.

In addition to its efforts to obtain declaratory relief, the Company has also brought suit against the City in New Hampshire Superior Court to obtain monetary damages that the Company believes resulted from the City's efforts to acquire some or all of the assets of the Company. The City removed the case to United States District Court and then sought to have the case dismissed in its entirety. On September 13, the United States District Court dismissed the Company's federal law claims without prejudice on the basis that the Company had not yet exhausted its available state law remedies and remanded the case to New Hampshire Superior Court for consideration of the Company's state law claims. On September 23, the City filed a Motion to Dismiss with the Superior Court, seeking to dismiss the balance of the Company's claims. The Company filed an objection to the City's Motion to Dismiss on October 22, 2004. It is not known when the Superior Court will rule on the City's motion.

Regulatory Investigations

The Company is the subject of an investigation by the New Hampshire Bureau of Securities Regulation (the "Bureau") and the Securities and Exchange Commission (the "SEC"). The scope of the investigation relates generally to the Company's commercialization of real estate through joint ventures involving its Southwood Corporation subsidiary and, in particular, to certain of the Company's public

Note 5 – Commitments and Contingencies (Continued)

disclosures regarding various joint venture transactions. Specifically, the Bureau and the SEC have alleged that in Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB, the Company improperly disclosed the purchase of a home by Maurice L. Arel, the Company's former President who is also a target of the investigation, from one of the Company's real estate joint ventures as being "on the same terms which would be given to any independent third-party". In fact, the purchase was not made on such terms, and the Company believes that Mr. Arel received a benefit in the range of $50,000 to $75,000 in connection with the purchase.

In addition, the Bureau and the SEC have alleged that the Company failed to properly disclose payments from the Company's real estate joint ventures to a landscaping company with which one of Mr. Arel's sons was involved. During the seven-year period from 1996 to 2002, six of the Company's joint ventures engaged for various landscaping projects a company with which one of Mr. Arel's sons was involved. The joint ventures' payments to that landscaping company totaled approximately $517,600 during that period. In three of those years, the aggregate payments for the year exceeded $60,000. In 1999, the joint ventures paid the landscaping company a total of $259,000, the greatest amount that the joint ventures paid to the landscaping company during a single year.

The regulators have also asserted that the Company failed to disclose the fact that nearly all of its real estate joint ventures had been formed with the same developer. In addition, the Bureau has alleged that the Company did not exercise proper oversight of the activities of those various joint ventures, including by failing to obtain or to keep adequate records, such as copies of financial records, contracts, correspondence or other material information, by failing to obtain formal appraisals of the land the Company contributed to the joint ventures, and by failing to consider or investigate real estate development alternatives since the early 1990s.

The Company's board of directors retained legal counsel to conduct an independent review of the allegations, under the direction of the Company's Audit Committee, and instructed the Company's executive officers and counsel to cooperate fully with the investigation by the Bureau and the SEC. That independent review is now substantially complete and the Company's counsel has briefed the regulators on the board's findings. In addition, and as a result of the independent review, Mr. Arel's employment with the Company and its subsidiaries was terminated in May 2003.

The Bureau and the SEC could seek to impose fines, penalties or other sanctions upon the Company as a result of their respective investigations. In November 2003, the Bureau and the SEC indicated a willingness to consider a global settlement of their claims against the Company and against Mr. Arel. The Company, Mr. Arel and the regulators are continuing to pursue a settlement. The framework of the settlement that is under consideration would consist of a fund to be established for the benefit of the Company's shareholders as of March 31, 2003 (other than Mr. Arel and the Company's other directors at that time), a fine to be paid to the Bureau, and a payment to the Bureau to defray its expenses. In addition to the negotiations with the Bureau and the SEC regarding the proposed settlement, the Company is also engaged in negotiations with Mr. Arel as to what portion, if any, of the settlement

Note 5 – Commitments and Contingencies (Continued)

amounts he would be responsible for paying. A settlement with Mr. Arel is dependent on a settlement with the regulators. The Company is hopeful that a settlement with the regulators and Mr. Arel will be announced by the end of 2004, but there can be no assurance that a settlement will in fact be reached or that the terms of any such settlement will not differ materially from those described above.

The Company recorded as an expense in 2003 a liability for the anticipated settlement based on the best estimates at that time of the Company and its legal counsel. The Company expects that additional expense, if any, that it may have to record related to the investigation or the anticipated settlement will not have a material impact on the Company's financial condition or results of operations, although there can be no assurance this will be the case.

Guarantee of Subsidiary Indebtedness

Southwood holds a 50% interest in four limited liability companies known as HECOP I, HECOP II, HECOP III and HECOP IV, each of which owns land and three of which each own a commercial office building, subject to a mortgage note with a local bank. The remaining 50% ownership interest in each of the LLCs is principally held by John Stabile, owner of H. J. Stabile & Son, Inc. The mortgage notes, totaling $9.0 million, which are not included in the accompanying condensed consolidated balance sheets, are each secured by the underlying real property. In addition, Southwood is contingently liable on one-half of the outstanding balance, and as such, it has issued a guarantee to the mortgagee for its share of the guaranteed indebtedness. At September 30, 2004, Southwood was contingently liable on approximately $4.5 million of mortgage indebtedness associated with these limited liability companies.

Note 6 – Deferred Gain on Land Sale

In January 2003, Southwood sold a tract of land to an unaffiliated regional developer for approximately $1.5 million. Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $257,000 in cash and a long-term note receivable of $1,223,990. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.5 million, of which $257,000, representing the net cash received at closing, is included in "Revenues-Real estate operations" for 2003. The remaining gain of $1,223,990, represented by the note receivable, has been deferred until payment of the note since the requirements established under Statement of Financial Accounting Standards No. 66, *"Accounting for Sales of Real Estate,"* for recognition of all of the profit from this sale have not yet been met.

Note 7 – Related Party Transaction

On April 23, 2004, Pennichuck executed an Indenture of Lease agreement (the "lease agreement") with HECOP III, LLC for the relocation of its corporate headquarters to a new leased facility in Merrimack, New Hampshire. As discussed in Note 5, under "Guarantee of Subsidiary Indebtedness," HECOP III, LLC is one of the four limited liability companies which is 50% owned by Southwood. The lease agreement was effective on May 1, 2004 with an expiration date of April 30, 2009 and provides for 14,289 rentable square feet at prevailing market rates during the term of the lease. In

Note 7 – Related Party Transaction (Continued)

connection with tenant improvements for the new facility, Stabile Construction Services, an affiliate of H. J. Stabile & Son, Inc., acted as construction manager for Pennichuck as provided for under the terms of the lease agreement. Stabile Construction Services has provided similar services for other non-related tenants in HECOPs I, II and III.

Note 8 – Assets Held for Sale

The Company owns a three story, 11,616 square foot building located in downtown Nashua, New Hampshire. This building served as the Company's corporate office until its relocation to a new leased facility on April 30, 2004 as described in "Note 7 – Related Party Transaction". The Company sold this building on November 9, 2004 for approximately $800,000, the proceeds for which the Company will receive as future conditions under Internal Revenue Code Section 1031 are met. In accordance with the requirements established under Statement of Financial Accounting Standards No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"), the Company has classified the costs related to this building separately as Assets Held for Sale. SFAS 144 requires that long-lived assets classified as held for sale be measured at the lower of their carrying amounts or fair value less cost to sell. Such assets consisted of the following at September 30, 2004:

	Cost	Accumulated Depreciation	Net Book Value
		($000's)	
Land	$ 59	$ -	$ 59
Building	735	328	407
Leasehold improvements	322	54	268
	$ 1,116	$ 382	$ 734

Note 9 – Segment Reporting

The Company operates principally in three business segments: regulated water utility operations, real estate operations and non-regulated water contract operations. "Other revenues", "other net income" and "other assets" as listed below relate to parent company activity which primarily includes rental revenues and eminent domain taking and other expenses. Financial data for the operating segments were as follows:

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
September 30, 2004

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(In thousands)			
Revenues:				
Water utility operations	$ 5,648	$ 5,713	$ 14,756	$ 14,333
Real estate operations	87	147	211	876
Contract operations	494	519	1,439	1,253
Other	12	15	41	40
Consolidated total	$ 6,241	$ 6,394	$ 16,447	$ 16,502
Segment Net Income:				
Water utility operations	$ 725	$ 904	$ 1,261	$ 1,384
Real estate operations	16	83	42	479
Contract operations	31	49	98	101
Other	(195)	(14)	(630)	(404)
Consolidated total	$ 577	$ 1,022	$ 771	$ 1,560

	September 30, 2004	December 31, 2003
Total Assets:		
Water utility operations	$ 95,169	$ 92,110
Real estate operations	1,184	2,651
Contract operations	373	252
Other	4,436	2,197
Consolidated total	$ 101,162	$ 97,210

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Pennichuck Corporation (the "Company") has five wholly-owned subsidiaries. Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. ("Pittsfield") are involved in water supply and distribution in cities and towns throughout southern and central New Hampshire. These water subsidiaries are regulated by the New Hampshire Public Utilities Commission ("NHPUC") and, as such, they must obtain approval to increase their water rates to recover increases in operating expenses and to obtain the opportunity to earn a return on rate base investments. Pennichuck Water Service Corporation (the "Service Corporation") is involved in non-regulated, water-related services and contract operations. The Southwood Corporation ("Southwood") owns, manages, develops, and sells real estate, principally through real estate joint ventures.

Forward Looking Statements

In addition to historical financial information, this quarterly report, including management's discussion and analysis, contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward looking statements are based on current information and expectations available to management at the time the statements are made and on several assumptions concerning future events that involve risks, uncertainties and factors that may be beyond the Company's control. As such, the actual performance of the Company may be materially different from the future results or performance expressed or implied by the forward looking statements contained in this report. Such statements address the following subjects, among others: the status of eminent domain proceedings before the NHPUC to acquire all or a portion of the assets of the Company's three water utility subsidiaries, ongoing litigation with respect thereto and impact thereof on the Company's consolidated business operations and planning; projected capital and liquidity needs; timeliness and extent of water utility rate increases, if any; future operating results in the water utility and real estate sectors; earnings growth and expectations; and corporate spending. The following factors, among others, could cause actual results to differ materially from those described in the forward looking statements: with respect to eminent domain and related litigation proceedings, the timeframe in which proceedings occur, and the results thereof or negotiated alternatives thereto; with respect to projected capital and liquidity needs, the extent of expenses arising from eminent domain proceedings and related matters, and the condition of the financial markets and the Company's financial position; with respect to regulated water utility rate relief, the timing and amount of rate increases as well as general regulatory lag in realizing changes; with respect to water utility operations, the impact of weather, such as the amount of rainfall and temperature; with respect to real estate development, the impact of overall economic conditions in the local and national economy; with respect to corporate spending, changes in capital projects as well as enhanced security measures that may affect the Company's level of capital expenditures. We undertake no obligation to update or revise forward looking statements, whether as a result of new information, future events or otherwise.

Eminent Domain

The Company's three utility subsidiaries are the subject of eminent domain efforts by the City of Nashua (the "City") regarding its desire to acquire all or a portion of their assets. The Town of Pittsfield has also voted to take the assets of the Company's utility subsidiary operating in that Town, but to date has not filed the necessary petition with the NHPUC to pursue the taking. In addition, the City, the Town of Pittsfield and a number of other communities whose residents are served by one or more of the Company's subsidiaries have either joined or expressed an interest in joining a regional water district for the purposes of acquiring and operating all or a substantial portion of the assets of the Company's utility subsidiaries from the City if the City is successful in its efforts.

Given the highly integrated nature of the Company's businesses, a forced sale of some or all of the assets of the Company's utility subsidiaries may result in increased costs and operating inefficiencies borne by the remaining assets of the Company not so acquired. Additionally, the Service Corporation's ability to service its existing contracts as well as pursue additional operating contracts may be impaired. There is no assurance as to the amount of compensation to be paid for the assets the NHPUC finds in the public interest for the City to take by eminent domain should the NHPUC make such a determination. The Company's financial position and results of operations may be materially impacted if the City's eminent domain efforts are successful. No adjustments have been recorded in the accompanying condensed consolidated financial statements to reflect these uncertainties. The status of these eminent domain efforts is discussed in greater detail in "Note 5 – Commitments and Contingencies – Eminent Domain," to the Notes to Condensed Consolidated Financial Statements.

Results of Operations -- Three Months Ended September 30, 2004 Compared to Three Months Ended September 30, 2003

For the three months ended September 30, 2004, consolidated net income was $577,000, or $.24 per share. For the same period in 2003, the Company's consolidated net income was $1,022,000, or $.43 per share. As discussed in greater detail below, the decrease in net income was primarily attributable to costs incurred in connection with the eminent domain proceeding conducted by the City as well as lower revenues and increased utility operating expenses during the three months ended September 30, 2004. The Company's consolidated revenues for the three months ended September 30, 2004 totaled $6.2 million, or a 2.4% decrease from the three month period ended September 30, 2003. As discussed below, this $153,000 decrease occurred primarily as a result of modest declines in revenues in each of the Company's business segments.

Our consolidated revenues are generally seasonal due to the overall significance of the water sales of Pennichuck, Pennichuck East and Pittsfield as a percent of consolidated revenues. Water revenues are typically at their lowest point during the first and fourth quarters of the calendar year while water revenues in the second and third quarters tend to be greater as a result of increased water consumption during the late spring and summer months. In addition, our consolidated revenues may be significantly affected by sales of major real estate parcels, which may occur from time to time.

Water Utility Operations

The Company's water utility operations include the activities of Pennichuck, Pennichuck East and Pittsfield, each of which is regulated by the NHPUC. The combined utility operating revenues for the three months ended September 30, 2004 decreased $65,000 to $5.6 million, or a 1.1% decrease from the same period in 2003 as shown in the table below broken out by each regulated water utility:

	September 30, 2004	September 30, 2003	Change
		($000's)	
Pennichuck	$4,577	$4,599	$ (22)
Pennichuck East	954	1,004	(50)
Pittsfield	117	110	7
Total	$ 5,648	$ 5,713	$ (65)

The percentage of each utility's revenues to the total combined utility revenues remained generally unchanged from the third quarter of 2003 to the third quarter of 2004.

Despite a 1.5% increase in the combined utilities' customer base, there was an overall decline in water revenues during the three months ended September 30, 2004 reflecting significantly more precipitation experienced during the summer of 2004. Total rainfall for the third quarter of 2004 was 16.8" compared to 13.9" in the third quarter of 2003. As a result, combined billed consumption was generally flat during the period and consumption within Pennichuck East was approximately 1.0% lower for the quarter ended September 30, 2004 as compared to the same period last year. In Pittsfield, the negative impact of the higher rainfall was offset by a 17.74% rate increase approved by the NHPUC and implemented by Pittsfield in February 2004.

During the past twelve months, the total increase in our combined utilities' customer base was 437 customers, or 1.5%. The number of customers in our utilities' community water systems has increased by 129 customers, or 6.2% during the last twelve months. Similarly, the number of customers in Pennichuck East has increased by 129 customers, or 2.9% since September 30, 2003. By contrast, however, the number of customers within Pennichuck's core system has increased by only 177 customers, or .8% (from 22,206 at the end of September 2003 to 22,383 at the end of September 2004). These growth trends are consistent with our historical experience in recent years.

On May 28, 2004, Pennichuck filed a Petition for Rate Relief with the NHPUC in which it is seeking an overall increase in its rates, which if granted, would result in approximately $2.34 million of additional annual revenues. On September 30, 2004, the NHPUC granted Pennichuck a temporary rate increase of 8.94% effective for service rendered on or after June 1, 2004. This temporary rate increase represents approximately $1.32 million in annual water revenues and such increase will be adjusted when permanent rates are set by order of the NHPUC. Pennichuck expects that a permanent water rate order will be issued in March 2005. At this time, however, the amount of the permanent rate increase which will ultimately be granted by the NHPUC cannot be determined. For the quarter ended September 30, 2004, Pennichuck has accrued approximately $222,000 in additional unbilled revenues to reflect the effect of this temporary rate increase.

Total utility operating expenses were $4.0 million for the three months ended September 30, 2004, a $312,000, or 8.4%, increase over the same period last year. The combined water utilities' operating costs increased primarily due to:

(i) approximately $68,000 of increased treatment and purchased water costs associated with operating our community systems in Pennichuck East during the third quarter of 2004, reflecting the increase in customer base in those systems;

(ii) approximately $63,000 of water production and maintenance costs within the Company's core system during the third quarter of 2004;

(iii) approximately $52,000 for additional non-union salary increases and property and liability insurance premiums, consistent with recent changes in the insurance market;

(iv) additional depreciation charges and property taxes totaling $50,000 and $45,000, respectively, associated with approximately $7.7 million of new utility plant and equipment placed in service during the past year; and

(v) an overall increase of approximately 3% in union wages effective in mid-February 2004.

Real Estate Operations

Real estate revenues for the comparative third fiscal quarters consisted primarily of Southwood's one-half ownership interest in certain commercial office buildings, discussed below, as well as interest income earned on a long-term note receivable due from an unaffiliated developer as described in greater detail in "Note 6 – Deferred Gain on Land Sale." For the three months ended September 30, 2004, revenues from Southwood's real estate activities were $87,000 compared to $147,000 for the same period last year.

Southwood holds a 50% ownership interest in four limited liability companies ("LLCs"), known as HECOP I, HECOP II, HECOP III and HECOP IV. Each of these LLCs owns land and three of the LLCs each own a commercial office building in Merrimack, New Hampshire. The remaining 50% ownership interest in each of the LLC's is principally held by John Stabile, a local developer, with whom Southwood has also participated in four residential joint ventures during the past 10 years. The assets and liabilities of those LLCs are not included in the accompanying Condensed Consolidated Balance Sheets. For the three months ended September 30, 2004 and 2003, Southwood recognized revenues of approximately $50,000 and $126,000, respectively, representing its 50% share of the pretax operating income from these LLCs. The decline in pretax operating income primarily reflects a loss of approximately $60,000 of rental income during this three month period resulting from 25,600 square feet of office space vacated in January 2004 by one of the tenants in the HECOP III building. However, as reported in "Note 7 – Related Party Transaction" to the Notes to Condensed Consolidated Financial Statements, Pennichuck has entered into a 5 year lease effective May 1, 2004, for 14,289 square feet of office space in HECOP III.

Contract Operations

The Service Corporation's revenues consist chiefly of fees earned under various operating and billing contracts as well as revenues from its Watertight and backflow testing programs. Revenues from contract operations were $494,000 for the three months ended September 30, 2004, compared to $519,000 for the same period in 2003. The $25,000 net decrease in contract revenues from last year is principally due to: (i) nearly $60,000 in lower revenues from unplanned work performed under the Service Corporation's two largest operating contracts with the Town of Hudson, New Hampshire and the Town of Salisbury, Massachusetts; offset by (ii) additional contract revenues from 15 new community water system contracts and $16,000 in additional revenues from the Service Corporation's backflow testing program.

Operating expenses associated with our contract operations were $443,000 for the three months ended September 30, 2004 compared to $438,000 for the three months ended September 30, 2003. The net increase in operating expenses resulted primarily from (i) an increase of $63,000 in allocated intercompany charges reflecting additional time and resources utilized for the operation and development of the Service Corporation's various activities, including business development; offset by (ii) $61,000 in lower direct contract costs associated with performing services under its two major operating contracts.

Eminent Domain Taking and Other Expenses

During the three months ended September 30, 2004 and 2003, the Company incurred approximately $299,000 and $51,000, respectively, of legal and other fees in connection with the eminent domain proceeding conducted by the City and the pending regulatory investigations discussed in "Note 5 – Commitments and Contingencies" to the Notes to Condensed Consolidated Financial Statements. A breakout of these costs for the three months ended September 30, 2004 and 2003 is shown in the following table.

	2004	2003
Eminent domain taking	$ 242,000	$ 23,000
Regulatory investigations	57,000	28,000
Total	$ 299,000	$ 51,000

The Company currently expects that it will continue to incur significant legal and other costs associated with the eminent domain taking by the City until final resolution of this matter. The future adverse impact of such additional costs and the duration of this matter cannot be reasonably determined at this time.

Results of Operations -- Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

For the nine months ended September 30, 2004, the Company's consolidated net income was $771,000, or $.32 per share. For the same period in 2003, the Company's consolidated net income was $1.6 million, or $.65 per share. Net income in 2004 and 2003 has been adversely affected by expenses relating to the eminent domain taking efforts by the City of Nashua, the pending regulatory investigations and the terminated merger with PSC each of which is discussed in Note 5 to the Notes to Condensed Consolidated Financial Statements. Excluding the effect of those expenses, consolidated net income would have been approximately $1.8 million, or $.75 per share for the nine months ended September 30, 2004 and $2.3 million, or $.96 per share for the nine months ended September 30, 2003.

The Company's consolidated revenues for the nine months ended September 30, 2004 totaled $16.4 million which approximated revenues for the nine months ended September 30, 2003. As discussed below, revenues from the Company's water utility operations and contract operations increased during 2004 but these increases were offset by a decline in revenues from real estate operations as compared to 2003.

Water Utility Operations

Utility operating revenues for the nine months ended September 30, 2004 increased to $14.8 million, or 3.0%, from the same period in 2003 as shown in the table below broken out by each of our regulated water utilities:

	September 30, 2004	September 30, 2003	Change
		($000's)	
Pennichuck	$11,975	$11,632	$ 343
Pennichuck East	2,424	2,358	66
Pittsfield	357	343	14
Total	$ 14,756	$ 14,333	$ 423

For the nine months ended September 30, 2004, 81%, 16% and 3% of the combined utilities' operating income was provided by Pennichuck, Pennichuck East and Pittsfield, respectively, which was comparable to 2003.

The increase in combined utility revenues, which occurred primarily in Pennichuck and Pennichuck East, was the result of the following: (i) a 1.5% increase in total new customers from September 2003 to September 2004; (ii) an increase in year-to-date combined billed consumption of 1.3% primarily within our community water systems and Pennichuck East; (iii) a 17.74% rate increase approved by the NHPUC and implemented by Pittsfield in February 2004; and (iv) a temporary rate increase of 8.94% approved by the NHPUC and implemented by Pennichuck for service rendered on or after June 1, 2004.

On May 28, 2004, Pennichuck filed a Petition for Rate Relief with the NHPUC in which it is seeking an overall increase in its rates, which if granted, would result in approximately $2.34 million of additional annual revenues. On September 30, 2004, the NHPUC granted Pennichuck a temporary rate increase of 8.94% effective for service rendered on or after June 1, 2004. This temporary rate increase represents approximately $1.32 million in annual water revenues and such increase will be adjusted when permanent rates are set by order of the NHPUC. Pennichuck expects that a permanent water rate order will be issued in March 2005. At this time, however, the amount of the permanent rate increase which will ultimately be granted by the NHPUC cannot be determined. For the nine months ended September 30, 2004, Pennichuck has accrued approximately $222,000 in additional unbilled revenues to reflect the effect of this temporary rate increase.

For the nine months ended September 30, 2004, utility operating expenses increased by $691,000, or 6.5%, to $11.3 million. That combined increase in the utilities' operating expenses over the nine months ended September 30, 2003 resulted chiefly from:

(i) approximately $131,000 of increased treatment and purchased water costs associated with operating our community systems in Pennichuck East during the nine months ended September 30, 2004, reflecting the increase in customer base in those systems;

(ii) approximately $25,000 of increased distribution system expenses as a result of colder temperatures experienced in the first quarter of 2004 as well as increased labor costs;

(iii) approximately $58,000 for additional property and liability insurance premiums, consistent with recent changes in the insurance market;

(iv) additional depreciation charges and property taxes totaling $180,000 and $98,000, respectively, associated with approximately $7.7 million of new utility plant and equipment placed in service during the past year; and

(v) an overall increase of approximately 3% in union wages effective in mid-February 2004.

Real Estate Operations

For the nine months ended September 30, 2004, revenues from Southwood's real estate activities were $211,000 compared to $876,000 for the same period last year. Revenues for the nine months ended September 30, 2003 included approximately $257,000 representing the net cash received at closing from the sale of a 67 acre parcel of unimproved land for approximately $1.5 million. Under the terms of that sale, Southwood also received a long-term note receivable of $1.2 million. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.5 million, of which $257,000 was recognized in 2003. The remaining gain of approximately $1.2 million, represented by the note receivable, has been deferred until payment of the note since the requirements established under Statement of Financial Accounting Standards No. 66, *"Accounting for Sales of Real Estate"* for recognition of all of the profit from this sale have not yet been met.

Revenues for the nine months ended September 30, 2003 also included $150,000 received by Westwood Park, LLC ("Westwood") representing escrowed funds from a land sale which occurred in 2000. During the nine months ended September 30, 2003, the restrictions relating to those escrowed funds expired and as a result, the funds were recognized as revenues. Westwood is a consolidated joint venture, in which Southwood has a 60% ownership interest, that was formed in 1997 to develop and sell certain parcels of land in northwest Nashua.

Southwood's revenues for the first nine months of 2004 include approximately $190,000 representing its 50% share of the pretax profits from the office leasing activities of the three LLCs discussed earlier. For the same period in 2003, Southwood's share of pretax operating income from the LLCs was approximately $367,000. The decline in pretax operating income primarily reflects a loss of approximately $145,000 of rental income during the nine month period resulting from 25,600 square feet of office vacated in January 2004 by of one the tenants in the HECOP III building. However, as reported in "Note 7 – Subsequent Event with Related Party" to the Notes to Condensed Consolidated Financial Statements, Pennichuck has entered into a 5 year lease effective May 1, 2004, for 14,289 square feet of office space in HECOP III.

Operating expenses associated with our real estate activities for the first nine months of 2004 totaled $133,000, comprised chiefly of allocated intercompany charges, consulting fees and property taxes on the remaining Southwood landholdings.

Contract Operations

Revenues from contract operations totaled $1.4 million for the nine months ended September 30, 2004, representing a $186,000 increase over the same period last year. The increase in 2004 over last year includes (i) approximately $30,000 of additional work performed under the Service Corporation's two largest operating contracts with the Town of Hudson, New Hampshire and the Town of Salisbury, Massachusetts, (ii) an additional $60,000 in contract revenues from 15 new community water system contracts, and (iii) an increase of $95,000 from revenues associated with the Service Corporation's Watertight and backflow sales programs.

Operating expenses associated with our contract operations were $1.3 million and $1.1 million for the nine months ended September 30, 2004 and 2003, respectively. The increase in operating expenses associated with our contract operations resulted primarily from $156,000 in additional intercompany charges reflecting additional time and resources allocable to the Service Corporation activities, including new business development and marketing efforts.

Eminent Domain Taking and Other Expenses

Eminent domain taking and other expenses for the nine months ended September 30, 2004 totaled $1,035,000 compared to $740,000 during the same period last year. These expenses in the current year related primarily to legal and other fees incurred in connection with the eminent domain proceeding conducted by the City and the pending regulatory investigations discussed in Note 5 to the Notes to Condensed Consolidated Financial Statements. During the nine months ended September 30, 2003, the Company also incurred approximately $231,000 in merger costs relating to the terminated merger agreement with Philadelphia Suburban Corporation. A breakout of these costs for the nine months ended September 30, 2004 and 2003 is shown in the following table.

	2004	2003
Eminent domain taking	$ 872,000	$136,000
Regulatory investigations	163,000	373,000
Terminated merger	---	231,000
Total	$1,035,000	$740,000

The Company currently expects that it will continue to incur significant legal and other costs associated with the eminent domain taking by the City until final resolution of this matter. The future adverse impact of such additional costs and the duration of this matter cannot be reasonably determined at this time.

Liquidity and Capital Resources

During the first nine months of 2004, the primary sources of cash needed for our day-to-day operating activities, debt service and dividend payments were (i) operating cash flow, (ii) available cash from the Company's short-term investments at the beginning of the year and (iii) additional borrowings under our revolving line of credit loan facility (the "Credit Facility") maintained with Bank of America ("BofA").

On March 29, 2004, the Company and BofA amended the Credit Facility to increase the available short-term credit from $2.5 million to $6.5 million. This increase is necessary in order to fund (i) the Company's planned capital expenditures over the next two years, (ii) any shortfall in operating cash flow and (iii) future costs associated with the Company's defense against the City of Nashua's eminent domain taking efforts and the likely settlement of the governmental regulatory investigations discussed in "Note 5 - Commitments and Contingencies" to the Notes to Condensed Consolidated Financial Statements. At September 30, 2004, there were $5.0 million in outstanding borrowings under this Credit Facility at floating interest rates ranging from 2.98% to the prime rate of 4.75%. Of the $3.0 million of increased borrowings from the end of 2003, nearly $872,000 resulted from expenses incurred by the Company in its defense against the eminent domain action commenced by the City of Nashua as discussed more fully in Note 5.

The Company's two largest utilities, Pennichuck and Pennichuck East, presently intend to issue a combined total of $6.8 million in tax exempt bonds in January 2005. Of that amount, approximately $3.0 million represents new debt and such proceeds will be used (i) to repay approximately $2.15 million of short-term borrowings under the Credit Facility used to fund two water utility projects in 2004, and (ii) to fund $850,000 for a water utility project expected to be undertaken in the first half of 2005. The remainder of the $6.8 million tax exempt bonds will be used by Pennichuck to refinance approximately $3.8 million of existing tax exempt bonds issued in 1994 in order to benefit from the lower interest costs of the new bond issue. Pennichuck and Pennichuck East have received the necessary approvals from the NHPUC, the New Hampshire Business Finance Authority and the New Hampshire Governor and Executive Council to issue these tax exempt bonds.

The Company, Pennichuck and Pennichuck East have a combined total of $9.5 million in balloon payments due on certain notes that mature in April 2005. These notes have been reclassified under Current Liabilities in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2004. At this time, among other actions taken to address this issue, the Company is evaluating several proposals that it has received from institutional investors with respect to the refinancing of these maturing notes. The Company fully expects to refinance these maturing obligations based on the proposals it has received to date.

For 2004, the Company expects that its total expenditures for capital projects will be approximately $6.99 million. Funding for its current year capital projects is, has been, and is expected to be, derived from a combination of contributions in aid of construction, state grants and low-interest, state revolving loans and the planned tax exempt bond offering as well as from internally-generated funds and short-term borrowings under the Company's Credit Facility

As discussed under "Results of Operations – Water Utility Operations," Pennichuck, the Company's largest regulated subsidiary, filed a Petition for Rate Relief with the NHPUC on May 28, 2004 in which it is seeking an overall increase in its rates, which if granted, would result in approximately $2.34 million of additional annual revenues. On September 30, 2004 the NHPUC issued an order authorizing a temporary rate increase of 8.94% for water service provided on or after June 1, 2004. The annualized effect of this temporary rate increase is expected to be approximately $1.32 million.

Other major changes in our financial position from December 31, 2003 to September 30, 2004 are discussed below.

- The increase in "Assets Held for Sale" of $734,000 represents the building cost and leasehold improvements relating to the Company's former corporate office as more fully explained in Note 8 to the Notes to Condensed Consolidated Financial Statements.

- The increase in accounts receivable of $569,000 relates primarily to (i) an increase in unbilled water revenues over the end of 2003, principally due to the greater demand and consumption of water during the third quarter of the current year compared to consumption levels in the fourth quarter of 2003 and (ii) the impact of the 8.94% temporary rate increase for Pennichuck discussed earlier.

- The decrease in refundable income taxes of $421,000 resulted principally from the receipt of approximately $456,000 of federal taxes originally paid in 2003 and refunded in 2004 as a result of the Company's 2003 net operating loss carryback.

- The $413,000 decrease in accounts payable from the end of 2003 to September 30, 2004 is primarily attributable to the payment of outstanding invoices due to various contractors for capital project work completed last year.

- Retained earnings decreased from $13.2 million at the end of 2003 to $12.4 million at September 30, 2004 reflecting the Company's year-to-date net income of $771,000 and common dividends paid of $1,546,000.

Critical Accounting Policies, Significant Estimates and Judgments

The Company has identified the accounting policies below as those policies critical to the business operations and the understanding of the results of operations. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Changes in the estimates or other judgments included within these accounting policies could result in significant changes to the financial statements. Our critical accounting policies are as follows.

Regulatory Accounting - the use of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards No. 71 ("SFAS 71"), *"Accounting for the Effects of Certain Types of Regulation"* stipulates generally accepted accounting principles for companies whose rates are established by or are subject to approval by an independent third-party regulator. In accordance with SFAS No. 71, we defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in rates charged to our water utilities' customers. In the event that the inclusion in the rate-making process is disallowed, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

Revenue Recognition - utility revenues are based on authorized rates approved by the NHPUC. Estimates of water utility revenues for water delivered to customers but not yet billed are accrued at the end of each accounting period. The Company reads its residential customer meters generally on a quarterly basis and records its revenue based on meter reading results. Unbilled revenues from the last meter-reading date to the end of the accounting period are estimated based on historical usage patterns and the effective water rates. The estimate of the unbilled revenue is a management estimate utilizing certain sets of assumptions and conditions. Actual results could differ from those estimates.

The Company's non-utility revenues are recognized when services are rendered or when water is delivered. Revenues are based, for the most part, on long-term contractual rates.

Pension and Other Post Retirement Benefits - the Company's pension and other postretirement benefits costs are dependent upon several factors and assumptions, such as employee demographics, plan design, the level of cash contributions made to the plans, earnings on the plans' assets, the discount rate, the expected long-term rate of return on the plans' assets and health care cost trends.

In accordance with SFAS No. 87, "*Employers Accounting for Pensions*" ("SFAS 87") and SFAS No. 106, "*Employers Accounting for Postretirement Benefits Other than Pensions*" ("SFAS 106"), changes in pension and postretirement benefit obligations other than pensions ("PBOP") associated with these factors may not be immediately recognized as pension and PBOP costs in the statements of income, but generally are recognized in future years over the remaining average service period of the plans' participants.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has entered into two interest rate swap agreements at a fixed rate of 6.5% in order to mitigate interest rate risks associated with its floating-rate loans. The agreements provide for the exchange of fixed interest rate payments for floating interest rate payment obligations on notional amounts of principal totaling $6,000,000. The Company has designated these interest rate swaps as a cash flow hedge against the variable future cash flows associated with the interest payments due on $6,000,000 of notes. As of September 30, 2004, the Company has recorded a liability of $131,000 in "Other accrued liabilities" associated with these swap agreements with the offsetting amount in "Accumulated other comprehensive income" in the accompanying Condensed Consolidated Balance Sheets.

The fair market value of the Company's interest rate swaps represents the estimated unrealized loss to terminate these agreements based upon current interest rates.

Item 4: CONTROLS AND PROCEDURES

We carried out an evaluation required by Rule 13a-15(b) of the Securities Exchange Act of 1934 under the supervision and with the participation of our management, including the principal executive officer and the principal financial officer, of the effectiveness of the design and operation of our "disclosure controls and procedures" as of the end of the period covered by this report.

Disclosure controls and procedures are designed with the objective of ensuring that (i) information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) information is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Based on their evaluation, the principal executive officer and the principal financial officer have concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective to provide reasonable assurance that information relating to the Company (including our consolidated subsidiaries) required to be included in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms.

There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company has been informed by the Securities and Exchange Commission and the New Hampshire Bureau of Securities Regulation that it is the subject of related investigations by each regulator as discussed in greater detail in "Note 5 – Commitments and Contingencies – Regulatory Investigations" to the Notes to Condensed Consolidated Financial Statements.

Further, eminent domain proceedings have been commenced before the New Hampshire Public Utilities Commission ("NHPUC") against the Company's three water utility subsidiaries, and the Company and such subsidiaries are engaged in litigation with respect thereto as discussed in greater detail in "Note 5 – Commitments and Contingencies – Eminent Domain" to the Notes to Condensed Consolidated Financial Statements.

Item 6. Exhibits and Reports on Form 8-K:

(a) The following exhibits are filed as part of this report:

Exhibit Number	Exhibit Description
31.1	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 31.1 to this report on Form 10-Q)
31.2	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 31.2 to this report on Form 10-Q)
32.1	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 32.1 to this report on Form 10-Q)
32.2	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 32.2 to this report on Form 10-Q)

(b) Reports on Form 8-K:

No reports on Form 8-K were filed during the third quarter of 2004.

SIGNATURES

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

Pennichuck Corporation
(Registrant)

Date: November 15, 2004

/s/ Donald L. Correll
Donald L. Correll, President and
Principal Executive Officer

Date: November 15, 2004

/s/ Charles J. Staab
Charles J. Staab, Vice President,
Treasurer and Principal Financial
Officer

Exhibit 31.1

SECTION 302 CERTIFICATION OF THE PRESIDENT AND PRINCIPAL EXECUTIVE OFFICER

I, Donald L. Correll, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pennichuck Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

    c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2004

/s/ Donald L. Correll
Donald L. Correll, President and
Principal Executive Officer

Exhibit 31.2

SECTION 302 CERTIFICATION OF THE VICE PRESIDENT, TREASURER AND PRINCIPAL FINANCIAL OFFICER

I, Charles J. Staab, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pennichuck Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

    c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2004

/s/ Charles J. Staab
Charles J. Staab, Vice President, Treasurer and
Principal Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 of Pennichuck Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald L. Correll, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.

Date: November 15, 2004

/s/ Donald L. Correll
Name: Donald L. Correll
Title: President and Chief Executive Officer

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 of Pennichuck Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles J. Staab, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.2 is expressly and specifically incorporated by reference in any such filing.

Date: November 15, 2004

/s/ Charles J. Staab
Name: Charles J. Staab
Title: Vice President, Treasurer and
Chief Financial Officer

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2003

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

For the transition period from _____ to _____.

Commission file number 0-18552

Pennichuck Corporation
(Exact name of registrant as specified in its charter)

New Hampshire	02-0177370
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Four Water Street, Nashua, New Hampshire	03061
(Address of principal executive offices)	(Zip Code)

(603) 882-5191
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES __X__ NO ______

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

Common Stock, $1 Par Value—2,391,439 shares as of May 2, 2003

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PENNICHUCK CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2003 (Unaudited)	December 31, 2002
ASSETS	(In thousands)	
Property, Plant and Equipment	107,720	106,951
Less accumulated depreciation	(27,990)	(27,279)
Net Property, Plant and Equipment	79,730	79,672
Current Assets		
Cash and cash equivalents	2,620	2,444
Restricted cash	151	151
Accounts receivable, net	2,663	2,853
Notes receivable	361	605
Refundable income taxes	---	334
Inventory	551	590
Prepaid expenses and other current assets	149	490
	6,495	7,467
Other Assets		
Deferred land costs	826	791
Deferred charges and other assets	3,149	3,052
Long-term note receivable	1,224	--
	5,199	3,843
TOTAL ASSETS	$91,424	$90,982
STOCKHOLDERS' EQUITY AND LIABILITIES		
Stockholders' Equity		
Common stock-par value $1 per share	$ 2,393	$ 2,393
Paid in capital	15,170	15,170
Retained earnings	13,622	13,941
Accumulated other comprehensive income	(913)	(927)
Less Treasury stock, at cost	(144)	(144)
	30,128	30,433
Long Term Debt, less current portion	26,942	26,860
Current Liabilities		
Current portion of long term debt	354	354
Accounts payable	396	673
Accrued interest payable	290	370
Other accrued expenses	1,677	1,534
	2,717	2,931
Deferred Credits and Other Reserves		
Contributions in aid of construction	20,101	20,261
Deferred income taxes	6,196	6,634
Deferred gain on land sale	1,224	---
Other liabilities and deferred credits	4,116	3,863
TOTAL STOCKHOLDERS' EQUITY & LIABILITIES	$91,424	$90,982

See notes to condensed consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended March 31	
	2003	2002
	(In thousands, except per share amounts)	
Revenues		
Water utility operations	$4,052	$3,952
Real estate operations	453	2,578
Contract operations	344	322
Other	12	13
	4,861	6,865
Operating expenses		
Water utility operations	3,377	3,159
Real estate operations	23	1,740
Contract operations	273	289
Other	224	5
	3,897	5,193
Operating income	964	1,672
Merger and related expenses	(255)	(175)
Other income	12	42
Interest expense	(490)	(493)
Income before income taxes	231	1,046
Provision for income taxes	84	416
Net Income	147	630
Other Comprehensive Income:		
Unrealized gain on derivatives, net of tax	14	76
Comprehensive Income	$161	$706
Net earnings per common share:		
Basic	$.06	$.26
Diluted	$.06	$.26
Weighted average common shares:		
Basic	2,391,439	2,389,416
Diluted	2,397,780	2,419,709
Dividends paid per common share	$.195	$.195

See notes to condensed consolidated financial statements

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31	
	2003	2002
	(In thousands)	
Operating Activities		
Net income	$147	$ 630
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	710	707
Gain on sale of land	(260)	(765)
Deferred income taxes	45	23
Change in other assets and liabilities	515	(369)
Net cash provided by operating activities	1,157	226
Investing Activities:		
Purchase of property, plant and equipment and other assets	(891)	(883)
Proceeds from sale of land, net	260	2,427
Increase in contributions in aid of construction	127	145
(Decrease) in other	(93)	(65)
Net cash provided (used) in investing activities	(597)	1,624
Financing Activities:		
Payments on long-term debt	(7)	---
Proceeds from issuance of debt	89	---
Payment of common dividends	(466)	(466)
Proceeds from dividend reinvestment plan and other	---	18
Net cash used in financing activities	(384)	(448)
Increase in cash and cash equivalents	176	1,402
Cash and cash equivalents at beginning of period	2,444	3,272
Cash and cash equivalents at end of period	$2,620	$4,674

Supplemental Cash Flow Information. Interest paid was $559,000 and $553,000 for the three months ended March 31, 2003 and 2002, respectively. No income taxes were paid in either of the three month periods ended March 31, 2003 or 2002. Non-cash items for the three months ended March 31, 2003 include the deferred gain on a land sale of $1.224 million and the related long-term note receivable as discussed in Note E of the Notes to Condensed Consolidated Financial Statements.

See notes to condensed consolidated financial statements.

NOTE A -- BACKGROUND

The financial statements include the accounts of Pennichuck Corporation (the "Company") and its wholly-owned subsidiaries, Pennichuck Water Works, Inc. ("Pennichuck"), Pittsfield Aqueduct Company, Inc. ("Pittsfield"), Pennichuck East Utility, Inc. ("Pennichuck East"), The Southwood Corporation ("Southwood") and Pennichuck Water Service Corporation (the "Service Corporation"). The financial statements also include the accounts of Westwood Park LLC ("Westwood") in which Southwood owns a 60% majority interest. All significant intercompany accounts have been eliminated in consolidation.

Certain amounts for the quarter ended March 31, 2002 have been reclassified to conform with the 2003 financial statement presentation. These reclassifications had no effect on net income and relate primarily to the disclosure of "Other revenues" and "Other expenses" as separate line items in the Condensed Consolidated Statements of Income.

NOTE B -- BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. The Balance Sheet amounts shown under the December 31, 2002 column have been derived from the audited financial statements of the Company as contained in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

NOTE C – NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 143, "*Accounting for Asset Retirement Obligations*" ("SFAS No. 143"). This statement requires that the fair value of the liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amounts of the long-lived assets. SFAS No. 143 is effective for all fiscal years beginning after June 15, 2002 and became effective for the Company on January 1, 2003. Adoption of this

NOTE C – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Statement did not have a material impact on the Company's results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, "*Accounting for Stock-Based Compensation- Transition and Disclosure- an amendment to FASB Statement No. 123*" (SFAS 148) which provides for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires prominent disclosures in both interim and annual financial statements about the method of accounting for stock-based employee compensation. At this time, the Company does not intend to change to the fair value based method of accounting for stock-based compensation. On a pro forma basis, the Company's net income and earnings per share for the quarter ended March 31, 2002 would have been reduced to the following amounts had compensation cost for the plan been determined consistent with SFAS No. 123, "Accounting for Stock Based Compensation." There was no stock-based employee compensation awarded in the first quarter of 2003.

	Quarter Ended March 31, 2003	2002
Net income:		
As reported	$147,000	$630,000
Deduct total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(--)	(145,000)
Pro forma	$147,000	$485,000
Basic earnings per share:		
As reported	$.06	$.26
Pro forma	$.06	$.20
Diluted earnings per share:		
As reported	$.06	$.26
Pro forma	$.06	$.20

In November 2002, FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (the "Interpretation"). The Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees it has issued. It also clarifies that a guarantor is

NOTE C – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. For Pennichuck Corporation, disclosure requirements are effective with the 2002 financial statements contained in its most recent Form 10-K report. The application of this Interpretation did not materially impact the financial condition, results of operations, and cash flows of Pennichuck Corporation.

Southwood has issued a financial guarantee of one-half of the outstanding mortgage balances associated with three limited liability companies in which it has a 50% ownership interest. At March 31, 2003, Southwood was contingently liable on approximately $4.69 million of mortgage indebtedness associated with those limited liability companies.

NOTE D – COMMITMENTS AND CONTINGENCIES

Termination of Merger Agreement

On April 29, 2002, the Company entered into a definitive agreement with Philadelphia Suburban Corporation ("PSC") to merge into a wholly-owned subsidiary of PSC with shareholders of the Company receiving shares of PSC in the merger. Under the terms of the agreement, the Company's stockholders would have received a number of shares of PSC common stock based upon the average closing price of PSC common stock for a 20-trading day period ending shortly before the closing of the merger. The merger was subject to several conditions, including, among other things, the satisfaction of the applicable requirements under the Hart-Scott-Rodino Antitrust Improvements Act, approval by the shareholders of the Company and approval by the New Hampshire Public Utilities Commission ("NHPUC"). The review of the merger by the NHPUC and approval by the Company's shareholders was expected to occur in the first half of 2003.

However, on November 26, 2002, the Board of Aldermen of the City of Nashua, New Hampshire adopted a resolution calling for a referendum on January 14, 2003 that, if passed, would authorize Nashua to pursue the acquisition, by an eminent domain proceeding or otherwise, of all or a portion of Pennichuck's water system serving the residents of Nashua and others. The voters of Nashua passed the referendum on January 14, 2003. Subsequently, on February 4, 2003, the Company announced that it had reached an agreement with PSC to terminate PSC's pending acquisition of the Company. The decision to terminate the merger agreement resulted from the ongoing efforts by the City of Nashua (the "City") to acquire Pennichuck's utility plant and property by eminent domain. Expenses associated with the PSC merger transaction and related issues totaled approximately $255,000 (or approximately $153,000 on an after-tax basis) for the quarter ended March 31, 2003.

NOTE D – COMMITMENTS AND CONTINGENCIES (Continued)

Pending Municipalization

The City formally notified the Company's utility subsidiaries on February 5, 2003 of its intention to acquire all or a portion of their plant and property. The notification letters from the City stated that the City was acting pursuant to New Hampshire's utility municipalization statute. The City did not propose a purchase price for the assets in its initial notification to the utility subsidiaries. On March 25, 2003, the Company's three utilities notified the City of their decision not to sell their plant and property. Under New Hampshire statutes, a municipality may seek the NHPUC's authorization to compel the sale of utility assets through an eminent domain proceeding if the utility does not agree to sell the assets voluntarily. By letter dated March 26, 2003, the City indicated its intent to pursue such an eminent domain proceeding. It is not certain whether the City would ultimately choose to complete the acquisition of all or any portion of the three utilities' plant and property even if the NHPUC were to approve such an acquisition and establish a price for it.

On April 8, 2003, the Town of Pittsfield formally notified Pittsfield Aqueduct Company, Inc. that it wished to acquire the plant and property of that company. The letter indicated that the Town was providing its notification pursuant to the New Hampshire utility municipalization statute. The statute provides for a utility to respond to such an inquiry within sixty days. The Company's Board of Directors has not yet considered the notification from the Town or determined how to respond.

Pending Governmental Investigations

The Company has been informed by the Securities and Exchange Commission and the New Hampshire Bureau of Securities Regulation that it is the subject of related investigations by each regulator. The Company understands that the scope of those investigations relates to various real estate development joint ventures, and includes a 1998 real estate transaction between one of those joint ventures and Maurice L. Arel, the Company's former President, and the Company's previous public disclosure regarding that transaction. The Company has received subpoenas from each regulator, seeking the production of documents in connection with their investigations. The Company believes that it has cooperated fully with both investigations, and it intends to continue to do so.

The Company's board of directors has retained legal counsel to conduct an independent review, under the direction of the Company's Audit Committee, of Mr. Arel's 1998 real estate transaction and other matters within the scope of the regulatory investigations. The Company's board of directors believes that independent review is substantially complete and has directed counsel to brief the regulators on the board's findings.

NOTE D – COMMITMENTS AND CONTINGENCIES (Continued)

As reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB for that year, disclosed that an executive officer had purchased a home in 1998 from a joint venture between a Pennichuck subsidiary and a real estate developer. Note A stated that the terms of the home purchase "were the same as the terms which would be given to any independent third-party purchaser." Mr. Arel is the executive referenced in that disclosure. Based upon the findings of the internal review, the board of directors of the Company has determined that Mr. Arel's 1998 home purchase in fact was not on terms that would have been available then to any independent third-party purchaser. The Audit Committee is continuing to investigate the matter to determine, among other things, the financial impact of the transaction on the Company, the value of any benefits received by Mr. Arel in that transaction, and what action the Company should take against Mr. Arel or others.

The SEC and the New Hampshire Bureau of Securities Regulation could seek to impose fines, penalties or other sanctions upon the Company as a result of their respective investigations.

Mr. Arel retired from the Company as an officer and director on April 2, 2003 and as an employee on May 2, 2003.

NOTE E – DEFERRED GAIN ON LAND SALE

In January 2003, Southwood sold a tract of land to a regional developer for approximately $1.5 million. Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $260,000 in cash and a long-term note receivable of $1,223,990. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.48 million, of which $260,000, representing the net cash received at closing, is included in "Revenues-Real Estate Operations." The remaining gain of $1,223,990, represented by the note receivable, has been deferred since the requirements established under Statement of Financial Accounting Standards No. 66, " Accounting for Sales of Real Estate," for recognition of all of the profit from this sale have not yet been met.

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations - - Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002

For the three months ended March 31, 2003, consolidated net income was $147,000, compared to $630,000 for the same period in 2002. Basic and diluted earnings per common share were $.06 and $.26 for the first quarter of 2003 and 2002, respectively. The Company's consolidated revenues for the first quarter of 2003 totaled $4.86 million – a decrease of nearly $2 million from the first quarter of 2002. As discussed below, this decline in consolidated revenues occurred primarily in the Company's real estate segment due to the sale of a major tract of land that had occurred in January 2002.

Our consolidated revenues are generally seasonal due to the overall significance of the water sales of Pennichuck, Pennichuck East and Pittsfield as a percent of consolidated revenues. Water revenues are typically at their lowest point during the first and fourth quarters of the calendar year while water revenues in the second and third quarters tend to be greater as a result of increased water consumption during the late spring and summer months. In addition, our consolidated revenues may be significantly affected by sales of major real estate parcels, which may occur from time to time.

Water Utility Operations

The Company's water utility operations include the activities of Pennichuck, Pennichuck East and Pittsfield, each of which is regulated by the New Hampshire Public Utilities Commission (the "NHPUC"). Utility operating revenues for the three months ended March 31, 2003 increased $100,000 to $4.05 million, or a 2.5% increase from the same period in 2002. For the three months ended March 31, 2003, utility revenues of Pennichuck, Pennichuck East and Pittsfield were $3.33 million, $592,000 and $134,000, respectively. The contribution percentage of each utility in the first quarter of 2003 was not materially different from the same quarter last year.

The net increase in combined utility revenues was a result of (i) an increase in the utilities' combined customer base of 224, or less than 1%, and (ii) the benefit of a 5.76% rate increase granted to Pennichuck in March 2002, offset, however, by a 1.2% decrease in billed consumption within Pennichuck's core system. That decrease in consumption reflects a declining trend in consumption for Pennichuck's 100 largest commercial and industrial accounts as a result of a modest slowdown in the regional economy.

During the first quarter of 2003, there were no rate filings made by the Company's regulated utilities. However, in May 2003, Pittsfield filed a Notice of Intent to File for Rate Relief in which it is seeking an increase of approximately $89,000, or 21.6%, in its annual water revenues. It is uncertain (i) whether or not this rate case will be concluded in 2003 or (ii) the amount of rate increase which will ultimately be determined by the NHPUC.

Results of Operations -- Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002 (Continued)

Total utility operating expenses were $3.38 million for the quarter ended March 31, 2003, a $218,000, or 6.9%, increase over the same period last year. The combined water utilities' operating costs increased primarily due to (i) approximately $80,000 of increased distribution system expenses as a result of colder temperatures and increased snowfall experienced in the first quarter of 2003, (ii) approximately $18,000 for additional property and liability insurance premiums, consistent with recent changes in the insurance market, (iii) $51,000 of additional depreciation charges and property taxes associated with approximately $5.27 million of new utility plant and equipment placed in service during the past year, (iv) approximately $23,000 in general and administrative salaries due to normal pay increases granted during 2002 and (v) an overall increase of approximately 3% in union wages effective in mid-February 2002.

Real Estate Operations

For the three months ended March 31, 2003, revenues from Southwood's real estate activities were $453,000 compared to $2.56 million for the same period last year. Last year's revenues include $2.43 million from the sale of the remaining 40 acres in Southwood Corporate Park to Winstanley Enterprises, Inc. -- one of Southwood's joint venture partners. The net sales price of $2.43 million was offset by approximately $1.66 million of remaining infrastructure costs which are included in "Operating Expenses – Real estate operations" in 2002 in the accompanying Condensed Consolidated Statements of Income.

Southwood's revenues for the first quarter of 2003 were derived from two principal sources. First, Southwood has a 50% ownership interest in four limited liability companies ("LLCs"), whose assets and liabilities are not included in the accompanying Condensed Consolidated Balance Sheets. Three of those LLCs each own a commercial office building from which Southwood recorded approximately $158,000 in the first quarter of 2003 as its share of pretax operating income from the rental activities of the LLCs. For the same quarter in 2002, Southwood's share of pretax operating income was approximately $103,000. At March 31, 2003, the principal asset of the fourth LLC was approximately 9.1 acres of land held for future development.

Results of Operations -- Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002 (Continued)

The second principal source of revenue from real estate activities in first quarter of 2003 was derived from the sale of land to a regional developer in January 2003. Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $260,000 in cash and a long-term note receivable of $1,223,990. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.48 million, of which $260,000, representing the net cash received at closing, is included in "Revenues-Real Estate Operations." The remaining gain of $1,223,990, represented by the note receivable, has been deferred since the requirements established under Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate," for recognition of all of the profit from this sale have not yet been met. The Company anticipates recognizing the deferred gain on this transaction upon final payment of principal on the note in October 2005.

Contract Operations

Revenues from contract operations were $344,000 for the three months ended March 31, 2003, compared to $322,000 for the same period in 2002. The Service Corporation's revenues consist chiefly of fees under various operations and billing contracts as well as rental income from several tower leases. The $22,000 increase in contract revenues over the same period last year is principally due to CPI adjustments to the contract fees contained in Service Corporation's two largest service agreements with the Town of Hudson, New Hampshire and the Town of Salisbury, Massachusetts.

Operating expenses associated with our contract operations were $273,000 for the first quarter of 2003 compared to $289,000 for the first quarter of 2002. The decrease in operating expenses associated with our contract operations resulted primarily from (i) a decrease of $8,000 in direct expenses associated with the Hudson contract and (ii) a $17,000 decrease in expenses related to the Service Corporation's Watertight program and other activities.

Other Expenses

Other expenses in the first quarter of 2003 include approximately $93,000 and $136,000 of legal and other fees incurred in connection with the pending municipalization offer and pending regulatory investigation, respectively, discussed in Note D to the Notes to Condensed Consolidated Financial Statements.

During the first quarter of 2003, the Company also incurred approximately $255,000 in merger costs relating to the terminated merger agreement with PSC as shown in the accompanying Condensed Consolidated Statement of Income. The Company currently expects that the legal and other costs associated with both the current municipalization offer and the ongoing regulatory investigations are likely to continue until the resolution of such matters.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Pending Governmental Investigations

The Company has been informed by the Securities and Exchange Commission and the New Hampshire Bureau of Securities Regulation that it is the subject of related investigations by each regulator. The Company understands that the scope of those investigations relates to various real estate development joint ventures, and includes a 1998 real estate transaction between one of those joint ventures and Maurice L. Arel, the Company's former President, and the Company's previous public disclosure regarding that transaction. The Company has received subpoenas from each regulator, seeking the production of documents in connection with their investigations. The Company believes that has cooperated fully with both investigations, and it intends to continue to do so.

The Company's board of directors has retained legal counsel to conduct an independent review, under the direction of the Company's Audit Committee, of Mr. Arel's 1998 real estate transaction and other matters within the scope of the regulatory investigations. The Company's board of directors believes that independent review is substantially complete and has directed counsel to brief the regulators on the board's findings.

As reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB for that year, disclosed that an executive officer had purchased a home in 1998 from a joint venture between a Pennichuck subsidiary and a real estate developer. Note A stated that the terms of the home purchase "were the same as the terms which would be given to any independent third-party purchaser." Mr. Arel is the executive referenced in that disclosure. Based upon the findings of the internal review, the board of directors of the Company has determined that Mr. Arel's 1998 home purchase in fact was not on terms that would have been available then to any independent third-party purchaser. The Audit Committee is continuing to investigate the matter to determine, among other things, the financial impact of the transaction on the Company, the value of any benefits received by Mr. Arel in that transaction, and what action the Company should take against Mr. Arel or others.

The SEC and the New Hampshire Bureau of Securities Regulation could seek to impose fines, penalties or other sanctions upon the Company as a result of their respective investigations.

Mr. Arel retired from the Company as an officer and director on April 2, 2003 and as an employee on May 2, 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Liquidity and Financial Condition

For the first three months of 2003, the cash required to fund the Company's normal operating activities and its capital improvements program was derived from a combination of operating cash flow and available short-term investments. Typically, our cash needs are at their lowest point of the year during the first quarter since construction activity for our water utilities and the related capital expenditures do not normally begin until the second quarter. Our operating subsidiaries generated approximately $1.16 million in consolidated operating cash flow for the three months ended March 31, 2003.

For the quarter ended March 31, 2003, our Company's cash and cash equivalents increased by $176,000 to $2.62 million, which is currently held in short-term money market investments. This cash is expected to be used for funding our capital investment program during 2003 and any operating cash flow deficiencies as well as any costs required as a result of the ongoing municipalization effort by the City of Nashua and by the ongoing governmental investigations.

The Company also maintains a revolving line of credit agreement with a local bank. This line of credit agreement allows the Company and its subsidiaries to borrow up to $2.5 million at interest rates tied to the bank's cost of funds or LIBOR, whichever is lower. At December 31, 2002 and March 31, 2003, there were no outstanding borrowings under this line of credit agreement.

Other major changes in our financial position from December 31, 2002 to March 31, 2003 were:

- a decrease of $341,000 in "Prepaid expenses and other current assets" resulting from prepaid property taxes which were amortized and charged against earnings during the first quarter of 2003;
- a decrease of $243,000 in "Notes receivable" included under Current Assets reflecting the net payments received on a development and construction loan to a local developer which are expected to be repaid in full in May 2003;
- an increase of $891,000 in operating and other utility assets for capital projects undertaken during the first quarter; and
- a decrease in retained earnings from $13.94 million at the end of 2002 to $13.62 million at March 31, 2003 as a result of the Company's net income of $147,000 for the first quarter of 2003 offset by common dividends paid of $466,000 during the first quarter.

Liquidity and Financial Condition (Continued)

The "Long-term note receivable" balance of $1.22 million at March 31, 2003 represents a note received by Southwood from the sale of a 66.8 acre tract of land to a regional developer in January 2003. Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $260,000 in cash and a long-term note receivable of $1,223,990. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.48 million, of which $260,000, representing the net cash received at closing, is included in "Revenues-Real Estate Operations." The remaining gain of approximately$1.22 million, represented by the note receivable, has been deferred since the requirements established under Statement of Financial Accounting Standards No. 66, " Accounting for Sales of Real Estate," for recognition of all of the profit from this sale have not yet been met.

Critical Accounting Policies

The Company has identified the accounting policies below as those policies critical to the business operations and the understanding of the results of operations. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and revenues and expenses. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Changes in the estimates or other judgments included within these accounting policies could result in significant changes to the financial statements. Our critical accounting policies are as follows:

The use of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards ("SFAS") No 71, "Accounting for the Effects of Certain Types of Regulation" stipulates generally accepted accounting principles for companies whose rates are established by or are subject to approval by an independent third-party regulator. In accordance with SFAS No. 71, we defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in the period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in our rates charged for water utility operations. In the event that our assessment as to the probability of the inclusion in the rate-making process is incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

Accrued unbilled revenue - We read our customer meters on a cyclical basis and record our revenue based on our meter reading results. Revenues from the meter-reading date to the end of the accounting period are estimated based on historical usage patterns and the effective tariff rates. The estimate of the unbilled revenue is a management estimate utilizing certain sets of assumptions and conditions. Actual results could differ from those estimates.

Forward Looking Information

This report, including management's discussion and analysis, contains certain forward looking statements regarding the Company's results of operations and financial position. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward looking statements. These forward looking statements are based on current information and expectations available to management at the time the statements are made, and are subject to factors and uncertainties that could cause the Company's actual results to differ materially from those expressed or implied by such forward looking statements. Such statements address the following subjects, among others: likely commencement of eminent domain proceedings before the NHPUC to acquire all or a portion of the Company's water utility assets, and impact thereof on the Company's consolidated business operations and planning; timeliness and extent of water utility rate increases, if any; future operating results in the water utility and real estate sectors; earnings growth and expectations; and corporate spending and liquidity. The following factors, among others, could cause actual results to differ materially from those described in the forward looking statements: with respect to eminent domain proceedings, the timeframe in which proceedings occur, and the results thereof or negotiated alternatives thereto; with respect to regulated water utility rate relief, the timing and amount of rate increases as well as general regulatory lag in realizing changes; with respect to water utility operations, the impact of weather, such as the amount of rainfall and temperature; with respect to real estate development, the impact of overall economic conditions in the local and national economy; with respect to corporate spending and liquidity, changes in capital projects that may affect the Company's level of capital expenditures, any enhanced security measures required to be implemented by water utility companies as a result of September 11th concerns, and expenses related to the pending municipalization efforts by the City of Nashua and others and the ongoing governmental investigations.

PART I. FINANCIAL INFORMATION
Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has entered into two interest rate swap agreements, at a fixed rate of 6.5%, in order to mitigate interest rate risks associated with its floating-rate loans. The agreements provide for the exchange of fixed interest rate payments for floating rate interest payment obligations on notional amounts of principal totaling $6,000,000. The Company has designated these interest rate swaps as a cash flow hedge against the variable future cash flows associated with the interest payments due on $6,000,000 of notes. As of March 31, 2003, the Company has recorded a liability of $517,000 in "Other liabilities and deferred credits" associated with these swap agreements with the offsetting amount in "Accumulated Other Comprehensive Income" in the accompanying Condensed Consolidated Balance Sheets.

The fair market value of the Company's interest rate swaps represents the estimated unrealized loss to terminate these agreements based upon current interest rates.

Item 4: CONTROLS AND PROCEDURES

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation as of a date within 90 days of the filing date of this Quarterly Report on Form 10-Q, the principal executive officer and principal financial officer of Pennichuck Corporation have concluded that Pennichuck Corporation's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by Pennichuck Corporation in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in applicable Securities and Exchange Commission rules and forms.

There were no significant changes in Pennichuck Corporation's internal controls or in other factors that could significantly affect those controls subsequent to the date of their most recent evaluation.

PART II. OTHER INFORMATION
Item 1. Legal Proceedings

The Company has been informed by the Securities and Exchange Commission and the New Hampshire Bureau of Securities Regulation that it is the subject of related investigations by each regulator as discussed in greater detail in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Report.

PART II. OTHER INFORMATION (Continued)
Item 4. Submission of Matters to a Vote of Security Holders

None

Item 6. EXHIBITS AND REPORTS ON FORM 8-K:

(a) Exhibit Index:

Exhibit Number	Exhibit Description
3.1	Restated Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.1 to the Company's 1990 Form 10-K Report and incorporated herein by reference)
3.2	Articles of Amendment to the Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.2 to the Company's 1994 Form 10-KSB Report and incorporated herein by reference)
3.3	Bylaws of Pennichuck Corporation (Filed as Exhibit 3.3 to the Company's 2002 Form 10-K Report and incorporated herein by reference)
3.4	Articles of Amendment to the Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.4 to the Company's 1999 second quarter Form 10-QSB Report and incorporated herein by reference)
3.5	Articles of Amendment to the Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.5 to the Company's 2000 second quarter Form 10-QSB Report and incorporated herein by reference)
3.6	Certificate of Designation of Series A Junior Participating Preferred Stock of Pennichuck Corporation (Filed as Exhibit 3.6 to the Company's 2000 second quarter Form 10-QSB Report and incorporated herein by reference)

PART II. OTHER INFORMATION
Item 6. EXHIBITS AND REPORTS ON FORM 8-K (Continued)

Exhibit Number	Exhibit Description
4.1	Rights Agreement dated as of April 20, 2000 by and between Pennichuck Corporation and Fleet National Bank as Rights Agent (incorporated by reference to Exhibit 3.2 to Pennichuck Corporation's Registration Statement on Form 8-A12G filed with the Securities and Exchange Commission on April 21, 2000).
4.2	Amendment to Rights Agreement dated October 10, 2001 by and between Pennichuck Corporation and Fleet National Bank (incorporated by reference to Exhibit 4.1 to Pennichuck Corporation's Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on April 30, 2002).
4.3	Second Amendment to Rights Agreement dated January 14, 2002 by and between Pennichuck Corporation and EquiServe Trust Company, N.A. (incorporated by reference to Exhibit 4.2 to Pennichuck Corporation's Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on April 30, 2002).
4.4	Agreement of Substitution and Amendment of Common Shares Rights Agreement dated January 15, 2002 by and between the Company and American Stock Transfer & Trust Company (incorporated by reference to Exhibit 4.3 to Pennichuck Corporation's Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on April 30, 2002).
4.5	Amendment to Rights Agreement dated April 29, 2002 by and between Pennichuck Corporation and American Stock Transfer & Trust Company (incorporated by reference to Exhibit 99.2 to Pennichuck Corporation's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 29, 2002).
10.1	Deferred Compensation Program for Directors of Pennichuck Corporation (Filed as Exhibit 10.2 to the Company's 1997 Form 10-KSB Report and incorporated herein by reference)

PART II. OTHER INFORMATION
Item 6. EXHIBITS AND REPORTS ON FORM 8-K (Continued)

Exhibit Number	Exhibit Description
10.2	Amended Line of Credit Agreement dated October 2, 1991 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.7 to the Company's 1991 Form 10-K Report and incorporated herein by reference)
10.3	Second Amendment dated March 23, 1994 to Line of Credit Agreement between Pennichuck Corporation and Fleet Bank-NH dated October 2, 1991 (Filed as Exhibit 10.7 to the Company's 1994 first quarter Form 10-QSB Report and incorporated herein by reference)
10.4	Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.8 to the Company's 1994 second quarter Form 10-QSB Report and incorporated herein by reference)
10.5	Insurance Funded Deferred Compensation Agreement dated June 13, 1994 (Filed as Exhibit 10.9 to the Company's 1994 second quarter Form 10-QSB Report and incorporated herein by reference)
10.6	Amendment Agreement dated May 4, 1995 to Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.8 to the Company's 1995 second quarter Form 10-QSB Report and incorporated herein by reference)
10.7	1995 Stock Option Plan (Filed as Exhibit 4.1 to the Company's Post-Effective Amendment No. 1 to Registration Statement on Form S-8, filed September 17, 2001, No. 333-57352, and incorporated herein by reference)
10.8	Amendment Agreement dated July 31, 1996 to Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.10 to the Company's 1996 third quarter Form 10-QSB Report and incorporated herein by reference)

PART II. OTHER INFORMATION
Item 6. EXHIBITS AND REPORTS ON FORM 8-K (Continued)

Exhibit Number	Description of Exhibit
10.9	Amendment Agreement dated March 18, 1998 to Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.10 to the Company's 1998 first quarter Form 10-QSB report and incorporated herein by reference)
10.10	Loan Agreement dated April 8, 1998 between Pennichuck Corporation, Pennichuck East Utility, Inc. and Fleet Bank-NH (Filed as Exhibit 10.11 to the Company's 1998 second quarter Form 10-QSB report and incorporated herein by reference)
10.11	Amendment Agreement dated April 24, 1998 to Loan Agreement dated April 8, 1998 between Pennichuck Corporation, Pennichuck East Utility, Inc., The Southwood Corporation, Pennichuck Water Service Corporation and Fleet Bank-NH (Filed as Exhibit 10.12 to the Company's 1998 second quarter Form 10-QSB report and incorporated herein by reference)
10.12	Employment Agreement by and between Pennichuck Corporation and Maurice L. Arel (Filed as Exhibit 10.13 to the Company's 1998 Form 10-KSB Report and incorporated herein by reference)
10.13	Form of Change of Control Agreement by and between Pennichuck Corporation and executive officers (Stephen J. Densberger, Charles J. Staab, Bonalyn J. Hartley and Donald L. Ware) each dated January 8, 1999 (Filed as Exhibit 10.14 to the Company's 1999 first quarter Form 10-QSB Report and incorporated herein by reference)
10. 14	Amendment Agreement dated August 24, 1999 to Amended and Restated Revolving Line of Credit Agreement dated March 23, 1994between Pennichuck Corporation, Pennichuck Water Works, Inc. and Fleet Bank-NH (Filed as Exhibit 10.15 to the Company's 1999 third quarter Form 10-QSB Report and incorporated herein by reference)

PART II. OTHER INFORMATION
Item 6. EXHIBITS AND REPORTS ON FORM 8-K (Continued)

Exhibit Number	**Description of Exhibit**
10.15	2000 Stock Option Plan (Exhibit 4.1 to the Company's Post-Effective Amendment No. 1 to Registration Statement on Form S-8, No. 333-57354, filed on September 17, 2001 and incorporated herein by reference)
99.1	Statement(s) under Section 906 of the Sarbanes – Oxley Act of 2002 furnished by John R. Kreick, PhD., Principal Executive Officer, and Charles J. Staab, Principal Financial Officer (Filed as Exhibit 99.1 to this report on Form 10-Q).

(b) Reports on Form 8-K:

The following Current Reports on Form 8-K were filed by the Registrant during the first quarter of 2003 with the Commission:

1. Current Report on Form 8-K dated January 8, 2003 under the caption "Item 9. Regulation FD Disclosure."

2. Current Report on Form 8-K dated February 5, 2003 under the caption "Item 5. Other Events."

3. Current Report on Form 8-K/A dated February 5, 2003 under the caption "Item 5. Other Events."

SIGNATURES

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

Pennichuck Corporation
(Registrant)

Date: May 15, 2003

/s/ John R. Kreick
John R. Kreick, PhD.,
Principal Executive Officer

Date: May 15, 2003

/s/ Charles J. Staab
Charles J. Staab, Vice President,
Treasurer and Principal Financial Officer

U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2003

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

For the transition period from _____ to _____.

Commission file number 0-18552

Pennichuck Corporation
(Exact name of registrant as specified in its charter)

New Hampshire	02-0177370
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Four Water Street, Nashua, New Hampshire	03061
(Address of principal executive offices)	(Zip Code)

(603) 882-5191
(Registrant's telephone number, including area code)

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 ___X___ NO _________

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
YES _______ NO __X___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

Common Stock, $1 Par Value—2,391,439 shares as of August 4, 2003

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PENNICHUCK CORPORATION AND SUBSIDIARIES
FORM 10-Q
June 30, 2003

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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2003 (Unaudited)	December 31, 2002
ASSETS	(In thousands, except share and per share data)	
Property, Plant and Equipment	$110,192	$106,951
Less accumulated depreciation	(28,747)	(27,279)
Net Property, Plant and Equipment	81,445	79,672
Current Assets		
Cash and cash equivalents	985	2,444
Restricted cash	---	151
Accounts receivable, net	3,091	2,853
Notes receivable	---	605
Refundable income taxes	---	334
Inventory	1,018	590
Prepaid expenses and other current assets	554	490
	5,648	7,467
Other Assets		
Deferred land costs	842	791
Deferred charges and other assets	3,266	3,052
Long-term note receivable	1,224	---
	5,332	3,843
TOTAL ASSETS	$92,425	$90,982
STOCKHOLDERS' EQUITY AND LIABILITIES		
Stockholders' Equity		
Common stock-par value $1 per share -authorized 11,500,000 shares - issued 2,393,391 shares	$2,393	$ 2,393
Paid in capital	15,170	15,170
Retained earnings	13,499	13,941
Accumulated other comprehensive income	(898)	(927)
Less Treasury stock, at cost – 1,952 shares	(138)	(144)
	30,026	30,433
Minority Interest	34	---
Long Term Debt, less current portion	26,975	26,860
Current Liabilities		
Current portion of long term debt	354	354
Accounts payable	1,193	673
Accrued interest payable	371	370
Income taxes payable	436	---
Other accrued expenses	1,114	1,534
	3,468	2,931
Deferred Credits and Other Reserves		
Contributions in aid of construction	20,492	20,261
Deferred income taxes	6,251	6,634
Deferred gain on land sale	1,224	---
Other liabilities and deferred credits	3,955	3,863
TOTAL STOCKHOLDERS' EQUITY & LIABILITIES	$92,425	$90,982

See notes to condensed consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Quarter Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
	(In thousands, except per share amounts and weighted average number of shares)			
Revenues				
Water utility operations	$4,567	$4,462	$8,619	$8,414
Real estate operations	277	194	729	2,772
Contract operations	390	385	734	707
Other	28	12	40	25
	5,262	5,053	10,122	11,918
Operating expenses				
Water utility operations	3,490	3,241	6,867	6,400
Real estate operations	17	42	40	1,782
Contract operations	375	255	648	544
Other	5	56	--	61
	3,887	3,594	7,555	8,787
Operating income	1,375	1,459	2,567	3,131
Merger and other expenses	(205)	(1,396)	(689)	(1,571)
Other income	16	35	28	77
Interest expense	(489)	(500)	(979)	(993)
Income (loss) before income taxes	697	(402)	927	644
Provision for income taxes	270	307	354	723
Net income (loss) before minority interest	427	(709)	573	(79)
Minority interest in (earnings) of Westwood Park LLC, net of tax	(34)	--	(34)	--
Net Income (loss)	393	(709)	539	(79)
Other comprehensive income:				
Unrealized gain (loss) on derivatives, net of tax	15	14	29	(62)
Comprehensive income	$408	$(695)	$568	$(141)
Net earnings (loss) per common share:				
Basic	$.16	$(.30)	$.23	$(.03)
Diluted	$.16	$(.29)	$.22	$(.03)
Weighted average common shares:				
Basic	2,391,439	2,391,439	2,391,439	2,390,283
Diluted	2,398,824	2,405,765	2,398,748	2,402,478
Dividends paid per common share	$.215	$.195	$.41	$.39

See notes to condensed consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30	
	2003	2002
	(In thousands)	
Operating Activities		
Net income (loss)	$539	$(79)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,408	1,382
Gain on sale of land	(260)	---
Allocation of land costs	---	1,662
Deferred income taxes	90	45
Change in other assets and liabilities	393	(893)
Net cash provided by operating activities	2,170	2,117
Investing Activities:		
Purchase of property, plant and equipment and other assets	(3,153)	(1,860)
Proceeds from sale of land, net	260	---
Increase in contributions in aid of construction	97	153
Increase (decrease) in other	26	(187)
Net cash used in investing activities	(2,770)	(1,894)
Financing Activities:		
Payments on long-term debt	(80)	(71)
Proceeds from issuance of debt	196	---
Payment of common dividends	(981)	(932)
Proceeds from dividend reinvestment plan and other	6	99
Net cash used in financing activities	(859)	(904)
Decrease in cash and cash equivalents	(1,459)	(681)
Cash and cash equivalents at beginning of period	2,444	3,272
Cash and cash equivalents at end of period	$985	$2,591

Supplemental Cash Flow Information. Interest paid was $1,038,000 and $965,000 for the six months ended June 30, 2003 and 2002, respectively. No income taxes were paid during the six months ended June 30, 2003. Income taxes paid during the six months ended June 30, 2002 were $97,000. Non-cash items for the six months ended June 30, 2003 include the deferred gain on a land sale of $1.224 million and the related long-term note receivable as discussed in Note E of the Notes to Condensed Consolidated Financial Statements and contributions in aid of construction totaling $304,000 and $106,000 for the six months ended June 30, 2003 and 2002, respectively.

See notes to condensed consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2003

NOTE A -- BACKGROUND

The financial statements include the accounts of Pennichuck Corporation (the "Company") and its wholly-owned subsidiaries, Pennichuck Water Works, Inc. ("Pennichuck"), Pittsfield Aqueduct Company, Inc. ("Pittsfield"), Pennichuck East Utility, Inc. ("Pennichuck East"), The Southwood Corporation ("Southwood") and Pennichuck Water Service Corporation (the "Service Corporation"). The financial statements also include the accounts of Westwood Park LLC ("Westwood") in which Southwood owns a 60% majority interest. All significant intercompany accounts have been eliminated in consolidation.

Certain amounts for the three and six months ended June 30, 2002 have been reclassified to conform with the 2003 financial statement presentation. These reclassifications had no effect on net income and relate primarily to the disclosure of "Other revenues" and "Other expenses" as separate line items in the Condensed Consolidated Statements of Operations.

NOTE B -- BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-Q and Regulation S-X pertaining to interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. The Balance Sheet amounts shown under the December 31, 2002 column have been derived from the audited financial statements of the Company as contained in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

NOTE C – NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 143, "*Accounting for Asset Retirement Obligations*" ("SFAS No. 143"). This statement requires that the fair value of the liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amounts of the long-lived assets. SFAS No. 143 is effective for all fiscal years beginning after June 15, 2002 and became effective for the Company on January 1, 2003. Adoption of this Statement did not have a material impact on the Company's results of operations or financial position.

NOTE C – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

In December 2002, the FASB issued SFAS No. 148, "*Accounting for Stock-Based Compensation- Transition and Disclosure- an amendment to FASB Statement No. 123*" (SFAS 148) which provides for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires prominent disclosures in both interim and annual financial statements about the method of accounting for stock-based employee compensation. At this time, the Company does not intend to change to the fair value based method of accounting for stock-based compensation. On a pro forma basis, the Company's net income and earnings per share for the three and six months ended June 30, 2003 and 2002 would have been reduced to the following amounts had compensation cost for the plan been determined consistent with SFAS No. 123, "Accounting for Stock Based Compensation." There was no stock-based employee compensation awarded for the six months ended June 30, 2003.

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
	(In thousands, except per share data)			
Net income (loss):				
As reported	$393	$(709)	$539	$(79)
Deduct total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(---)	(---)	(---)	(145)
Pro forma	$393	$709	$539	$(224)
Basic earnings per share:				
As reported	$.16	$(.30)	$.23	$(.03)
Pro forma	$.16	$(.30)	$.23	$(.09)
Diluted earnings per share:				
As reported	$.16	$(.29)	$.22	$(.03)
Pro forma	$.16	$(.29)	$.22	$(.09)

In November 2002, FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (the "Interpretation"). The Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees it has issued. It also clarifies that a guarantor is

NOTE C – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. For Pennichuck Corporation, disclosure requirements were effective with the 2002 financial statements contained in its most recent Form 10-K report. The application of this Interpretation did not materially impact the financial condition, results of operations, and cash flows of Pennichuck Corporation.

Southwood has issued a financial guarantee of one-half of the outstanding mortgage balances associated with three limited liability companies in which it has a 50% ownership interest. At June 30, 2003, Southwood was contingently liable on approximately $4.66 million of mortgage indebtedness associated with those limited liability companies.

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51." FIN 46 establishes accounting, reporting and disclosure requirements for companies that currently hold unconsolidated investments in Variable Interest Entities ("VIEs"). Depending on the nature of the interest, reporting of a VIE could be satisfied by disclosure or full consolidation. FIN 46 applies immediately to VIEs created or acquired after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to VIEs that were previously created or acquired before February 1, 2003. The Company does not hold interests in any VIEs, and does not expect the adoption of FIN 46 to have a material effect on its combined financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 applies specifically to a number of financial instruments that companies have historically presented with their financial statements either as equity or between the liabilities section and the equity section, rather than as liabilities. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not believe that SFAS No. 150 will have a material effect on its combined financial statements.

NOTE D – COMMITMENTS AND CONTINGENCIES

Termination of Merger Agreement

On April 29, 2002, the Company entered into a definitive agreement with Philadelphia Suburban Corporation ("PSC") to merge into a wholly-owned subsidiary of PSC with shareholders of the Company receiving shares of PSC in the merger. Under the terms of the agreement, the Company's stockholders would have received a number of shares of PSC common stock based upon the average closing price of PSC common stock for a 20-trading day period ending shortly before the closing of the merger. The merger was subject to several conditions, including, among other things, the satisfaction of the applicable requirements under the Hart-Scott-Rodino Antitrust Improvements Act, approval by the shareholders of the Company and approval by the New Hampshire Public Utilities Commission ("NHPUC"). The review of the merger by the NHPUC and approval by the Company's shareholders was expected to occur in the first half of 2003.

However, on November 26, 2002, the Board of Aldermen of the City of Nashua, New Hampshire adopted a resolution calling for a referendum on January 14, 2003 that, if passed, would authorize Nashua to pursue the acquisition, by an eminent domain proceeding or otherwise, of all or a portion of Pennichuck's water system serving the residents of Nashua and others. The voters of Nashua passed the referendum on January 14, 2003. Subsequently, on February 4, 2003, the Company announced that it had reached an agreement with PSC to terminate PSC's pending acquisition of the Company. The decision to terminate the merger agreement resulted from the ongoing efforts by the City of Nashua (the "City") to acquire Pennichuck's utility plant and property by eminent domain. Expenses associated with the PSC merger transaction and related issues totaled approximately $231,000 (or approximately $139,000 on an after-tax basis) for the six months ended June 30, 2003.

Pending Municipalization

The City formally notified the Company's utility subsidiaries on February 5, 2003 of its intention to acquire all or a portion of their plant and property. The notification letters from the City stated that the City was acting pursuant to New Hampshire's utility municipalization statute. The City did not propose a purchase price for the assets in its initial notification to the utility subsidiaries. On March 25, 2003, the Company's three utilities notified the City of their decision not to sell their plant and property. Under New Hampshire statutes, a municipality may seek the NHPUC's authorization to compel the sale of utility assets through an eminent domain proceeding if the utility does not agree to sell the assets voluntarily. By letter dated March 26, 2003, the City indicated its intent to pursue such an eminent domain proceeding. It is not certain whether the City would ultimately choose to complete the acquisition of all or any portion of the three utilities'

NOTE D – COMMITMENTS AND CONTINGENCIES (Continued)

plant and property even if the NHPUC were to approve such an acquisition and establish a price for it.

On April 8, 2003, the Town of Pittsfield formally notified Pittsfield Aqueduct Company, Inc. that it wished to acquire the plant and property of that company. The letter indicated that the Town was providing its notification pursuant to the New Hampshire utility municipalization statute. By letter dated May 28, 2003, Pittsfield Aqueduct Company, Inc. notified the Town of Pittsfield of its decision not to sell its plant and property.

The Company cannot predict the ultimate outcome of these matters. It is possible that, if the acquisition efforts of the City and the Town of Pittsfield are successful, the financial position of the Company would be materially impacted. No adjustments have been recorded in the accompanying condensed financial statements for these uncertainties.

Pending Governmental Investigations

The Company has been informed by the Securities and Exchange Commission and the New Hampshire Bureau of Securities Regulation that it is the subject of related investigations by each regulator. The Company understands that the scope of those investigations relates to various real estate development joint ventures, and includes a 1998 real estate transaction between one of those joint ventures and Maurice L. Arel, the Company's former President, and the Company's previous public disclosure regarding that transaction. The Company has received subpoenas from each regulator, seeking the production of documents in connection with their investigations. The Company believes that it has cooperated fully with both investigations, and it intends to continue to do so.

The Company's board of directors has retained legal counsel to conduct an independent review, under the direction of the Company's Audit Committee, of Mr. Arel's 1998 real estate transaction and other matters that the Company believes are within the scope of the regulatory investigations. The Company's board of directors believes that independent review is substantially complete, and at the board's direction, counsel has briefed the regulators on the board's findings.

As reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB for that year, disclosed that an executive officer had purchased a home in 1998 from a joint venture between a Pennichuck subsidiary and a real estate developer. Note A stated that the terms of the home purchase "were the same as the terms which would be given to any independent third-party purchaser." Mr. Arel is

NOTE D – COMMITMENTS AND CONTINGENCIES (Continued)

the executive referenced in that disclosure. Based upon the findings of the internal review, the board of directors of the Company has determined that Mr. Arel's 1998 home purchase in fact was not on terms that would have been available then to any independent third-party purchaser. The board is continuing to consider what action the Company should take against Mr. Arel in light of these facts, the ongoing regulatory investigations and the related expenses incurred by the Company, among other factors.

The SEC and the New Hampshire Bureau of Securities Regulation could seek to impose fines, penalties or other sanctions upon the Company as a result of their respective investigations. The Company cannot predict the ultimate outcome of this matter and accordingly, no adjustments have been made in the accompanying condensed financial statements for these uncertainties.

Mr. Arel retired from the Company as an officer and director on April 2, 2003 and as an employee on May 2, 2003.

NOTE E – DEFERRED GAIN ON LAND SALE

In January 2003, Southwood sold a tract of land to a regional developer for approximately $1.5 million. Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $260,000 in cash and a long-term note receivable of $1,223,990. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.48 million, of which $260,000, representing the net cash received at closing, is included in "Revenues-Real Estate Operations." The remaining gain of $1,223,990, represented by the note receivable, has been deferred until payment of the note since the requirements established under Statement of Financial Accounting Standards No. 66, " Accounting for Sales of Real Estate," for recognition of all of the profit from this sale have not yet been met.

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Information

This report, including management's discussion and analysis, contains forward looking statements regarding the Company's results of operations and financial condition. Any statements contained herein that do not describe historical facts are forward looking statements. These forward looking statements are based on current information and expectations available to management at the time the statements are made, and are subject to factors and uncertainties that could cause the Company's actual results to differ materially from those expressed or implied by such forward looking statements. Such statements address the following subjects, among others: likely commencement of eminent domain proceedings before the NHPUC to acquire all or a portion of the Company's water utility assets, and impact thereof on the Company's consolidated business operations and planning; timeliness and extent of water utility rate increases, if any; future operating results in the water utility and real estate sectors; earnings growth and expectations; and corporate spending and liquidity. The following factors, among others, could cause actual results to differ materially from those described in the forward looking statements: with respect to eminent domain proceedings, the timeframe in which proceedings occur, and the results thereof or negotiated alternatives thereto; with respect to regulated water utility rate relief, the timing and amount of rate increases as well as general regulatory lag in realizing changes; with respect to water utility operations, the impact of weather, such as the amount of rainfall and temperature; with respect to real estate development, the impact of overall economic conditions in the local and national economy; with respect to corporate spending and liquidity, changes in capital projects that may affect the Company's level of capital expenditures, any enhanced security measures required to be implemented by water utility companies as a result of September 11th concerns, and expenses related to the pending municipalization efforts by the City of Nashua and others and the ongoing governmental investigations.

Results of Operations - - Three Months Ended June 30, 2003 Compared to Three Months Ended June 30, 2002

For the three months ended June 30, 2003, consolidated net income was $393,000, compared to a loss of $709,000 for the same period in 2002. Basic earnings per common share were $.16 for the second quarter of 2003 compared to a basic loss per share of $.30 in the second quarter of 2002. A principal reason for the loss in 2002 was $1.4 million in merger-related costs associated with the termination of the Philadelphia Suburban Corporation planned merger. The Company's consolidated revenues for the second quarter of 2003 totaled $5.26 million – a 4% increase over the second quarter of 2002. As discussed in greater detail below, this increase in consolidated revenues occurred primarily in the Company's water utility and real estate segments.

Our consolidated revenues are generally seasonal due to the overall significance of the water sales of Pennichuck, Pennichuck East and Pittsfield as a percent of consolidated revenues. Water revenues are typically at their lowest point during the first and fourth quarters of the calendar year while water revenues in the second and third quarters tend to

Results of Operations - - Three Months Ended June 30, 2003 Compared to Three Months Ended June 30, 2002 (Continued)

be greater as a result of increased water consumption during the late spring and summer months. In addition, our consolidated revenues may be significantly affected by sales of major real estate parcels, which may occur from time to time.

Water Utility Operations

The Company's water utility operations include the activities of Pennichuck, Pennichuck East and Pittsfield, each of which is regulated by the New Hampshire Public Utilities Commission (the "NHPUC"). The combined utility operating revenues for the three months ended June 30, 2003 increased $105,000 to $4.57 million, or a 2.4% increase from the same period in 2002 as shown in the table below broken out by each regulated water utility:

	(in thousands)		
	June 30, 2003	June 30, 2002	Change
Pennichuck	$3,707	$3,642	$ 65
Pennichuck East	762	719	43
Pittsfield	98	101	(3)
Total	$ 4,567	$ 4,462	$105

The percentage of each utility's revenues to the total combined utility revenues remained generally unchanged from the second quarter of 2002 to the second quarter of 2003.

The net increase in combined utility revenues was a result of (i) an increase in the utilities' combined customer base of 550, representing a 1.9% increase and (ii) the benefit of a 5.76% rate increase granted to Pennichuck in March 2002 for service rendered on or after April 1, 2002, offset, however, by a 3.3% decrease in billed consumption within Pennichuck's core system. That decrease in consumption reflects a declining trend in consumption for Pennichuck's 100 largest commercial and industrial accounts as a result of a modest slowdown in the regional economy.

In May 2003, Pittsfield filed a Notice of Intent to File for Rate Relief in which it is seeking an increase of approximately $67,000, or 16.3%, in its annual water revenues. It is uncertain (i) whether or not this rate case will be concluded in 2003 or (ii) the amount of rate increase which will ultimately be determined by the NHPUC. Currently, there are no pending rate filings for either Pennichuck or Pennichuck East.

Total utility operating expenses were $3.49 million for the quarter ended June 30, 2003, a $249,000, or 7.7%, increase over the same period last year. The combined water utilities' operating costs increased primarily due to (i) approximately $118,000 of increased distribution system expenses as a result of an extensive flushing program in Pennichuck's and Pennichuck East's distribution systems; (ii) approximately $31,000 for additional property and liability insurance premiums, consistent with recent changes in the insurance market, (iii) $43,000 of additional depreciation charges associated with approximately $5.27 million of new utility plant and equipment placed in service during 2002, (iv) approximately $28,000 in general and administrative expenses reflecting principally increases in salaries and benefits and (v) an overall increase of approximately 3% in union wages effective in mid-February 2003.

Real Estate Operations

For the quarter ended June 30, 2003, revenues from Southwood's real estate activities were $277,000 compared to $194,000 for the same period last year. Southwood's revenues for the second quarter of 2003 were derived from two principal sources. First, Southwood has a 50% ownership interest in four limited liability companies ("LLCs"), whose assets and liabilities are not included in the accompanying Condensed Consolidated Balance Sheets. Three of those LLCs each own a commercial office building from which Southwood recorded approximately $81,000 in the second quarter of 2003 as its share of pretax operating income from the rental activities of the LLCs. For the same quarter in 2002, Southwood's share of pretax operating income was approximately $21,000. At June 30, 2003, the principal asset of the fourth LLC was approximately 9.1 acres of land held for future development.

The second source of real estate revenues was approximately $42,000 of interest income and equity premiums earned on certain amounts loaned to a local, unrelated developer to fund the development and construction of a five unit residential development. The loans to the developer were secured by a first mortgage on the properties and all amounts due from the developer, including principal and accrued interest, were paid in full in May 2003.

Contract Operations

Revenues from contract operations were $390,000 for the three months ended June 30, 2003, compared to $385,000 for the same period in 2002. The Service Corporation's revenues consist chiefly of fees under various operations and billing contracts with the Town of Hudson, New Hampshire and the Town of Salisbury, Massachusetts and approximately 50 non-transient, non-community water systems ("NTNCWS") throughout southern and central New Hampshire. The $5,000 increase in contract revenues over the same period last year is principally due to CPI adjustments to the contract fees contained in Service Corporation's service agreements with the two municipalities and the addition of 12 new NTNCWS contracts over last year partially offset, however, by approximately $11,000 in lower revenues from sundry consulting services performed during the first and second quarters of 2002. There have been no such consulting services thus far in 2003.

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations - - Three Months Ended June 30, 2003 Compared to Three Months Ended June 30, 2002 (Continued)

Operating expenses associated with our contract operations were $375,000 for the second quarter of 2003 compared to $255,000 for the second quarter of 2002. The increase in operating expenses associated with our contract operations resulted primarily from an $89,000 increase in intercompany charges reflecting additional time and resources allocable to the Service Corporation activities, including new business development.

Other Expenses

Merger and other expenses in the second quarter of 2003 which totaled $205,000 relate primarily to legal and other fees incurred in connection with the pending municipalization process and pending regulatory investigation discussed in Note D to the Notes to Condensed Consolidated Financial Statements. There were no such charges during the second quarter of 2002. The Company currently expects that the legal and other costs associated with both the current municipalization offer and the ongoing regulatory investigations are likely to continue until the resolution of such matters.

For the three months ended June 30, 2002, merger and other expenses was comprised chiefly of costs associated with the Company's planned merger with Philadelphia Suburban Corporation which was terminated in February 2003 as discussed in Note D to the Notes to Condensed Consolidated Financial Statements. There were no such merger-related costs during the second quarter of 2003.

Results of Operations – Six Months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002

For the six months ended June 30, 2003, the Company's consolidated net income was $539,000, or $.23 per share. For the same period last year, the Company incurred a net loss of $79,000, or $.03 per share, principally due to the merger expenses associated with the planned merger with Philadelphia Suburban Corporation. Year-to-date consolidated revenues in 2003 were $10.12 million compared to $11.92 million last year. As discussed below, the decline in consolidated revenues occurred primarily in the Company's real estate business segment due to the sale of a major tract of land in the first quarter of 2002.

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations – Six Months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002 (Continued)

Water Utility Operations

Utility operating revenues for the six months ended June 30, 2003 increased to $8.62 million, or 2.4%, from the same period in 2002 as shown in the table below broken out by each of our regulated water utilities:

	(in thousands)		
	June 30, 2003	June 30, 2002	Change
Pennichuck	$ 7,033	$ 6,880	$ 153
Pennichuck East	1,355	1,332	23
Pittsfield	231	202	29
Total	$ 8,619	$ 8,414	$ 205

For the six months ended June 30, 2003, 81%, 16% and 3% of the combined utilities' operating income was provided by Pennichuck, Pennichuck East and Pittsfield, respectively, which was comparable to 2002.

The increase in overall water revenues was derived primarily from our core system, Pennichuck. Although year-to-date billed consumption within the core system declined 2.3% from the same period last year, that negative impact on water revenues was partially offset by the positive effect of the 5.76% rate increase implemented by Pennichuck in April 2002. Accordingly, water revenues of Pennichuck's core system for the first six months of 2003 increased 2.2% over the same period last year. Additionally, water revenues reflect a 1.9% increase in the combined utilities' customer base from June 30, 2002 to June 30, 2003.

For the six months ended June 30, 2003, utility operating expenses increased by $467,000, or 7%, to $6,867,000. That combined increase in the utilities' operating expenses over the first half of 2002 resulted chiefly from (i) $173,000 of increased distribution system expenses as a result of colder temperatures experienced in the first quarter of 2003 and the utilities' aggressive system flushing program in the second quarter of 2003, (ii) approximately $71,000 of additional depreciation expense recognized by our three utilities for the first half of 2003 as a result of their additional investment in plant assets during 2002 and 2003, (iii) $79,000 of increased property taxes as a result of increased additional plant assets taxable by local and state authorities, (iv) $70,000 of increased insurance premiums for additional property and liability insurance premiums, consistent with recent changes in the insurance market and (v) approximately $60,000 for increased salaries and benefits.

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations – Six Months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002 (Continued)

Real Estate Operations

For the six months ended June 30, 2003, revenues from Southwood's real estate activities were $729,000 compared to $2,772,000 for the same period last year. This decrease resulted primarily from the sale of the remaining 40 acres in Southwood Corporate Park in January 2002 for $2.43 million. The remaining infrastructure costs allocable to that sale of approximately $1.66 million are included in "Operating Expenses – Real estate operations" in the accompanying Condensed Consolidated Statements of Operations for 2002.

Southwood's revenues for the first half of 2003 include approximately $239,000 representing its 50% share of the pretax profits from the office leasing activities of the three LLCs discussed earlier. For the same period in 2002, Southwood's share of pretax operating income from the LLCs was approximately $124,000.

Revenue from real estate activities in 2003 also reflects the sale of land to a regional developer in January 2003. Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $260,000 in cash and a long-term note receivable of $1,223,990. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.48 million, of which $260,000, representing the net cash received at closing, is included in "Revenues-Real Estate Operations." The remaining gain of $1,223,990, represented by the note receivable, has been deferred since the requirements established under Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate," for recognition of all of the profit from this sale have not yet been met. The Company anticipates recognizing the deferred gain on this transaction upon final payment of principal on the note in October 2005.

Operating expenses associated with our real estate activities for the first six months of 2003 totaled $40,000, comprised chiefly of allocated intercompany charges and property taxes on the remaining Southwood landholdings.

Contract Operations

Revenues from contract operations totaled $734,000 for the six months ended June 30, 2003, representing a $27,000 increase over the same period last year. The increase over last year includes (i) the addition of 12 new NTNCWS contracts from June 30, 2002 and (ii) CPI increases in contract fees earned in the first six months of 2003, partially offset by lower revenues from sundry consulting services performed during 2002 compared to 2003.

Results of Operations – Six Months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002 (Continued)

Contract Operations (Continued)

Operating expenses associated with our contract operations were $648,000 and $544,000 for the first six months of 2003 and 2002, respectively. The increase in operating expenses associated with our contract operations resulted primarily from additional intercompany charges of $115,000 reflecting additional time and resources allocable to the Service Corporation activities, including new business development.

Other Expenses

Merger and other expenses for the six months ended June 30, 2003 totaled $689,000 compared to $1,571,000 during the same period last year. Other expenses in the current year related primarily to legal and other fees incurred in connection with the pending municipalization process and pending regulatory investigation discussed in Note D to the Notes to Condensed Consolidated Financial Statements. There were no such charges during the second quarter of 2002. The Company currently expects that the legal and other costs associated with both the current municipalization offer and the ongoing regulatory investigations are likely to continue until the resolution of such matters.

For the six months ended June 30, 2002, merger and other expenses was comprised chiefly of costs associated with the Company's planned merger with Philadelphia Suburban Corporation which was terminated in February 2003 as discussed in Note D to the Notes to Condensed Consolidated Financial Statements.

Pending Governmental Investigations

The Company has been informed by the Securities and Exchange Commission and the New Hampshire Bureau of Securities Regulation that it is the subject of related investigations by each regulator. The Company understands that the scope of those investigations relates to various real estate development joint ventures, and includes a 1998 real estate transaction between one of those joint ventures and Maurice L. Arel, the Company's former President, and the Company's previous public disclosure regarding that transaction. The Company has received subpoenas from each regulator, seeking the production of documents in connection with their investigations. The Company believes that it has cooperated fully with both investigations, and it intends to continue to do so.

The Company's board of directors has retained legal counsel to conduct an independent review, under the direction of the Company's Audit Committee, of Mr. Arel's 1998 real estate transaction and other matters that the Company believes are within the scope of the regulatory investigations. The Company's board of directors believes that independent review is

Pending Governmental Investigations (Continued)

substantially complete, and at the board's discretion, counsel has briefed the regulators on the board's findings.

As reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB for that year, disclosed that an executive officer had purchased a home in 1998 from a joint venture between a Pennichuck subsidiary and a real estate developer. Note A stated that the terms of the home purchase "were the same as the terms which would be given to any independent third-party purchaser." Mr. Arel is the executive referenced in that disclosure. Based upon the findings of the internal review, the board of directors of the Company has determined that Mr. Arel's 1998 home purchase in fact was not on terms that would have been available then to any independent third-party purchaser. The board is continuing to consider what action the Company should take against Mr. Arel in light of these facts, the ongoing regulatory investigations and the related expenses incurred by the Company, among other factors.

The SEC and the New Hampshire Bureau of Securities Regulation could seek to impose fines, penalties or other sanctions upon the Company as a result of their respective investigations. The Company cannot predict the ultimate outcome of this matter and accordingly, no adjustments have been made in the accompanying condensed financial statements for these uncertainties.

Mr. Arel retired from the Company as an officer and director on April 2, 2003 and as an employee on May 2, 2003.

Liquidity and Capital Resources

For the first half of 2003, the cash required to fund the Company's normal operating activities and its capital improvements program was derived from a combination of operating cash flow, available short-term investments and low interest, state revolving loan funds. Typically, our cash needs are at their lowest point of the year during the first quarter and early second quarter since construction activity for our water utilities and the related capital expenditures do not normally begin until the second quarter. Our operating subsidiaries generated approximately $2.17 million in consolidated operating cash flow for the six months ended June 30, 2003.

The Company's cash and cash equivalents at June 30, 2003 decreased by $1.46 million to $985,000, which is currently held in short-term money market investments. This available cash is expected to be used to partially fund our capital investment program during the remainder of 2003. Year-to-date capital expenditures in 2003 totaled approximately $2.9 million. It is anticipated that any additional cash required to fund the Company's remaining $5 million of planned capital expenditures will be provided by

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (Continued)

operating cash flow, short-term borrowings under a revolving line of credit and various federal and state grants and revolving loan funds.

The Company maintains a revolving line of credit agreement with Fleet National Bank. This line of credit agreement allows the Company and its subsidiaries to borrow up to $2.5 million at interest rates tied to the bank's cost of funds or LIBOR, whichever is lower. At December 31, 2002 and June 30, 2003, there were no outstanding borrowings under this line of credit agreement.

The following is a discussion of other major changes in the Company's consolidated financial position from December 31, 2002 to June 30, 2003.

- Notes receivable included under Current Assets decreased by $605,000 reflecting the net payments received on a development and construction loan to a local developer which were repaid in full in May 2003.

- Inventory increased to $1.0 million, or $428,000 from the end of 2002, principally due to the purchase of remote radio read devices which will be integrated with the water meters currently installed on the customers' premises.

- Consolidated accounts payable at June 30, 2003 was $1.19 million, compared to $673,000 at December 31, 2002. This increase principally reflects additional vendor invoices associated with the purchase of the remote radio reads discussed above and additional retainage amounts with contractors for repairs, improvements, and certain capital projects.

- Retained earnings decreased from $13.9 million at the end of 2002 to $13.5 million at June 30, 2003 as a result of net income earned of $539,000 for the first half of 2003 offset by common dividends paid of $981,000.

- Other accrued expenses included under Current Liabilities decreased by $420,000 principally as a result of the timing of year-end construction projects.

- The "Long-term note receivable" balance of $1.2 million at June 30, 2003 represents a note received by Southwood from the sale of a 66.8 acre tract of land to a regional developer in January 2003. Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $260,000 in cash and a long-term note receivable of $1,223,990. The note, which matures in October 2005, carries a floating

Liquidity and Capital Resources (Continued)

interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.48 million, of which $260,000, representing the net cash received at closing, is included in "Revenues-Real Estate Operations." The remaining gain of approximately $1.22 million, represented by the note receivable, has been deferred until payment of the note since the requirements established under Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate," for recognition of all of the profit from this sale has not yet been met.

Critical Accounting Policies, Significant Estimates and Judgments

The Company has identified the accounting policies below as those policies critical to the business operations and the understanding of the results of operations. The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. Accounting principles generally accepted in the United States require us to make estimates and judgments in several areas. Our critical accounting policies are as follows:

The use of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards ("SFAS") No 71, "Accounting for the Effects of Certain Types of Regulation" stipulates generally accepted accounting principles for companies whose rates are established by or are subject to approval by an independent third-party regulator. In accordance with SFAS No. 71, we defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in the period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in our rates charged for water utility operations. In the event that our assessment as to the probability of the inclusion in the rate-making process is incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

Accrued unbilled revenue - We read our customer meters on a cyclical basis and record our revenue based on our meter reading results. Revenues from the meter-reading date to the end of the accounting period are estimated based on historical usage patterns and the effective tariff rates. The estimate of the unbilled revenue is a management estimate utilizing certain sets of assumptions and conditions. Actual results could differ from those estimates.

PART I. FINANCIAL INFORMATION
Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has entered into two interest rate swap agreements, at a fixed rate of 6.5%, in order to mitigate interest rate risks associated with its floating-rate loans. The agreements provide for the exchange of fixed interest rate payments for floating rate interest payment obligations on notional amounts of principal totaling $6,000,000. The Company has designated these interest rate swaps as a cash flow hedge against the variable future cash flows associated with the interest payments due on $6,000,000 of notes. As of June 30, 2003, the Company has recorded a liability of $493,000 in "Other liabilities and deferred credits" associated with these swap agreements with the offsetting amount in "Accumulated Other Comprehensive Income" in the accompanying Condensed Consolidated Balance Sheets. The fair market value of the Company's interest rate swaps represents the estimated unrealized loss to terminate these agreements based upon current interest rates.

Item 4: CONTROLS AND PROCEDURES

We have established disclosure controls and procedures designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 ("Exchange Act").

Based on an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act) required by Rule 13a-15(b) as of June 30, 2003, the end of the period covered by this Quarterly Report on Form 10-Q, the principal executive officer and principal financial officer have concluded that such disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable Securities and Exchange Commission's rules and forms.

There were no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION
Item 1. Legal Proceedings

The Company has been informed by the Securities and Exchange Commission and the New Hampshire Bureau of Securities Regulation that it is the subject of related investigations by each regulator as discussed in greater detail in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Report. These matters were addressed in the Company's quarterly report on Form 10-Q for the period ended March 31, 2003.

PART II. OTHER INFORMATION

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

(a) On May 27, 2003, the Company held its Annual Meeting of Shareholders to elect two directors and to ratify the appointment by the Board of Directors of the firm of PricewaterhouseCoopers LLP as independent accountants of the Company for the year ending December 31, 2003.

(b) The following incumbent directors were re-elected to a three year term expiring at the Annual Meeting of Shareholders in 2006:

	Number of Shares Voting --	
	For	Withheld
Joseph A. Bellavance	1,879,882	54,498
Robert P. Keller	1,860,364	74,016

The continuing directors whose terms expire beyond the May 27, 2003 Annual Meeting date are:

Charles E. Clough	Hannah M. McCarthy
Stephen J. Densberger	Martha T. O'Neill
John R. Kreick	Charles J. Staab

(c) By a vote of 1,916,385 shares FOR, 1,066 shares ABSTAINING and 6,929 shares AGAINST, the Board of Directors' appointment of PricewaterhouseCoopers LLP as the Company's independent accountants for the year ending December 31, 2003 was ratified.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K:

(a) Exhibit Index:

Exhibit Number	Exhibit Description
3.1	Restated Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.1 to the Company's 1990 Form 10-K Report and incorporated herein by reference)
3.2	Articles of Amendment to the Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.2 to the Company's 1994 Form 10-KSB Report and incorporated herein by reference)
3.3	Bylaws of Pennichuck Corporation (Filed as Exhibit 3.3 to the Company's 2002 Form 10-K Report and incorporated herein by reference)

PART II. OTHER INFORMATION
Item 6. EXHIBITS AND REPORTS ON FORM 8-K (Continued)

Exhibit Number	Exhibit Description
3.4	Articles of Amendment to the Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.4 to the Company's 1999 second quarter Form 10-QSB Report and incorporated herein by reference)
3.5	Articles of Amendment to the Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.5 to the Company's 2000 second quarter Form 10-QSB Report and incorporated herein by reference)
3.6	Certificate of Designation of Series A Junior Participating Preferred Stock of Pennichuck Corporation (Filed as Exhibit 3.6 to the Company's 2000 second quarter Form 10-QSB Report and incorporated herein by reference)
4.1	Rights Agreement dated as of April 20, 2000 by and between Pennichuck Corporation and Fleet National Bank as Rights Agent (incorporated by reference to Exhibit 3.2 to Pennichuck Corporation's Registration Statement on Form 8-A12G filed with the Securities and Exchange Commission on April 21, 2000).
4.2	Amendment to Rights Agreement dated October 10, 2001 by and between Pennichuck Corporation and Fleet National Bank (incorporated by reference to Exhibit 4.1 to Pennichuck Corporation's Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on April 30, 2002).
4.3	Second Amendment to Rights Agreement dated January 14, 2002 by and between Pennichuck Corporation and EquiServe Trust Company, N.A. (incorporated by reference to Exhibit 4.2 to Pennichuck Corporation's Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on April 30, 2002).
4.4	Agreement of Substitution and Amendment of Common Shares Rights Agreement dated January 15, 2002 by and between the Company and American Stock Transfer & Trust Company (incorporated by reference to Exhibit 4.3 to Pennichuck Corporation's Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on April 30, 2002).

PART II. OTHER INFORMATION
Item 6. EXHIBITS AND REPORTS ON FORM 8-K (Continued)

Exhibit Number	Exhibit Description
4.5	Amendment to Rights Agreement dated April 29, 2002 by and between Pennichuck Corporation and American Stock Transfer & Trust Company (incorporated by reference to Exhibit 99.2 to Pennichuck Corporation's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 29, 2002).
10.1	Deferred Compensation Program for Directors of Pennichuck Corporation (Filed as Exhibit 10.2 to the Company's 1997 Form 10-KSB Report and incorporated herein by reference)
10.2	Amended Line of Credit Agreement dated October 2, 1991 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.7 to the Company's 1991 Form 10-K Report and incorporated herein by reference)
10.3	Second Amendment dated March 23, 1994 to Line of Credit Agreement between Pennichuck Corporation and Fleet Bank-NH dated October 2, 1991 (Filed as Exhibit 10.7 to the Company's 1994 first quarter Form 10-QSB Report and incorporated herein by reference)
10.4	Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.8 to the Company's 1994 second quarter Form 10-QSB Report and incorporated herein by reference)
10.5	Amendment Agreement dated May 4, 1995 to Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.8 to the Company's 1995 second quarter Form 10-QSB Report and incorporated herein by reference)
10.6	1995 Stock Option Plan (Filed as Exhibit 4.1 to the Company's Post-Effective Amendment No. 1 to Registration Statement on Form S-8, filed September 17, 2001, No. 333-57352, and incorporated herein by reference)

PART II. OTHER INFORMATION
Item 6. EXHIBITS AND REPORTS ON FORM 8-K (Continued)

Exhibit Number	Exhibit Description
10.7	Amendment Agreement dated July 31, 1996 to Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.10 to the Company's 1996 third quarter Form 10-QSB Report and incorporated herein by reference)
10.8	Amendment Agreement dated March 18, 1998 to Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.10 to the Company's 1998 first quarter Form 10-QSB report and incorporated herein by reference)
10.9	Loan Agreement dated April 8, 1998 between Pennichuck Corporation, Pennichuck East Utility, Inc. and Fleet Bank-NH (Filed as Exhibit 10.11 to the Company's 1998 second quarter Form 10-QSB report and incorporated herein by reference)
10.10	Amendment Agreement dated April 24, 1998 to Loan Agreement dated April 8, 1998 between Pennichuck Corporation, Pennichuck East Utility, Inc., The Southwood Corporation, Pennichuck Water Service Corporation and Fleet Bank-NH (Filed as Exhibit 10.12 to the Company's 1998 second quarter Form 10-QSB report and incorporated herein by reference)
10.11	Form of Change of Control Agreement by and between Pennichuck Corporation and executive officers (Stephen J. Densberger, Charles J. Staab, Bonalyn J. Hartley and Donald L. Ware) each dated January 8, 1999 (Filed as Exhibit 10.14 to the Company's 1999 first quarter Form 10-QSB Report and incorporated herein by reference)
10.12	Amendment Agreement dated August 24, 1999 to Amended and Restated Revolving Line of Credit Agreement dated March 23, 1994between Pennichuck Corporation, Pennichuck Water Works, Inc. and Fleet Bank-NH (Filed as Exhibit 10.15 to the Company's 1999 third quarter Form 10-QSB Report and incorporated herein by reference)

PART II. OTHER INFORMATION
Item 6. EXHIBITS AND REPORTS ON FORM 8-K (Continued)

Exhibit Number	Exhibit Description
10.13	2000 Stock Option Plan (Exhibit 4.1 to the Company's Post-Effective Amendment No. 1 to Registration Statement on Form S-8, No. 333-57354, filed on September 17, 2001 and incorporated herein by reference)
31	Section 302 Certifications furnished by Donald L. Correll, Principal Executive Officer, and Charles J. Staab, Principal Financial Officer (Filed as Exhibit 31 to this report on Form 10-Q).
32	Statement(s) under Section 906 of the Sarbanes – Oxley Act of 2002 furnished by Donald L. Correll, Principal Executive Officer, and Charles J. Staab, Principal Financial Officer (Filed as Exhibit 32 to this report on Form 10-Q).

(b) Reports on Form 8-K:

The following Current Reports on Form 8-K were filed by the Registrant since the filing of its Form 10-Q for the quarter ended March 31, 2003 with the Commission:

1. Current Report on Form 8-K dated April 2, 2003 under the caption "Item 5. Other Events and Regulation FD Disclosure."

2. Current Report on Form 8-K dated August 4, 2003 under the caption "Item 5. Other Events and Regulation FD Disclosure."

SIGNATURES

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

Pennichuck Corporation
(Registrant)

Date: August 14, 2003

/s/ Donald L. Correll
Donald L. Correll
Principal Executive Officer

Date: August 14, 2003

/s/ Charles J. Staab
Charles J. Staab, Vice President,
Treasurer and Principal Financial
Officer

Exhibit 31

CERTIFICATION

I, Donald L. Correll, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pennichuck Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Donald L. Correll — August 14, 2003
Donald L. Correll
Principal Executive Officer

Exhibit 31

CERTIFICATION

I, Charles J. Staab, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pennichuck Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Charles J. Staab — August 14, 2003
Charles J. Staab
Principal Financial Officer

Exhibit 32

STATEMENT UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officers of Pennichuck Corporation (the "Company") hereby certify that, as of the date of this statement, the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the three and six month periods ended June 30, 2003.

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002. This statement is not "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Act or any other federal or state law or regulation.

Date: August 14, 2003

/s/ Donald L. Correll
Name: Donald L. Correll
Title: Principal Executive Officer

Date: August 14, 2003

/s/ Charles J. Staab
Name: Charles J. Staab
Title: Principal Financial Officer

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

FORM 10-Q

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

For the quarterly period ended September 30, 2003

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

For the transition period from _____ to _____.

Commission File Number 0-18552

Pennichuck Corporation
(Exact name of registrant as specified in its charter)

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

Four Water Street, Nashua, New Hampshire	03061
(Address of principal executive offices)	(Zip Code)

(603) 882-5191
(Registrant's telephone number, including area code)

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 __X__ NO ______

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
YES _____ NO __X__

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

Common Stock, $1 Par Value—2,394,439 shares were outstanding as of November 10, 2003

PENNICHUCK CORPORATION AND SUBSIDIARIES
FORM 10-Q
September 30, 2003

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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2003 (Unaudited)	December 31, 2002
ASSETS	(In thousands, except share and per share data)	
Property, plant and equipment	$112,727	$106,951
Less accumulated depreciation	(29,520)	(27,279)
Net property, plant and equipment	83,207	79,672
Current Assets		
Cash and cash equivalents	1,435	2,444
Restricted cash	--	151
Accounts receivable, net	3,563	2,853
Notes receivable	--	605
Refundable income taxes	345	334
Inventory	756	590
Prepaid expenses and other current assets	159	490
	6,258	7,467
Other Assets		
Deferred land costs	837	791
Deferred charges and other assets	3,579	3,052
Long term note receivable	1,224	---
	5,640	3,843
TOTAL ASSETS	$95,105	$90,982
STOCKHOLDERS' EQUITY AND LIABILITIES		
Stockholders' Equity		
Common stock-par value $1 per share (authorized 11,500,000 shares; issued 2,393,391 shares)	$2,393	$2,393
Paid in capital	15,170	15,170
Retained earnings	14,006	13,941
Accumulated other comprehensive income	(856)	(927)
Less treasury stock, at cost (1,952 shares)	(138)	(144)
	30,575	30,433
Minority Interest	34	--
Long term debt, less current portion	28,167	26,860
Current Liabilities		
Current portion of long term debt	354	354
Accounts payable	1,009	673
Accrued interest payable	289	370
Other accrued expenses	1,345	1,534
	2,997	2,931
Deferred Credits and Other Reserves		
Contributions in aid of construction	20,687	20,261
Deferred income taxes	7,692	6,634
Deferred gain on land sale	1,224	---
Other liabilities and deferred credits	3,729	3,863
TOTAL STOCKHOLDERS' EQUITY & LIABILITIES	$95,105	$90,982

See notes to condensed consolidated financial statements

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
	(In thousands, except share and per share amounts)			
Revenues				
Water utility operations	$5,713	$5,900	$14,333	$14,314
Real estate operations	147	267	876	3,039
Contract operations	519	358	1,253	1,065
Other	15	12	40	37
	6,394	6,537	16,502	18,455
Operating expenses				
Water utility operations	3,722	3,100	10,589	9,500
Real estate operations	25	38	65	1,820
Contract operations	438	454	1,086	998
Other	--	35	--	96
	4,185	3,627	11,740	12,414
Operating income	2,209	2,910	4,762	6,041
Merger and other expenses	(51)	(95)	(740)	(1,666)
Other income	9	7	51	84
Interest expense	(493)	(493)	(1,473)	(1,486)
Income before income taxes and minority interest	1,674	2,329	2,600	2,973
Provision for income taxes	652	952	1,006	1,675
Net income before minority interest	1,022	1,377	1,594	1,298
Minority interest in (earnings) of Westwood Park LLC, net of tax	--	--	(34)	--
Net income	$1,022	$1,377	$1,560	$1,298
Basic earnings per common share:	$ .43	$ .58	$ .65	$ .54
Diluted earnings per common share:	$.43	$ .57	$.65	$ .54
Weighted average common shares:				
Basic	2,391,439	2,391,439	2,391,439	2,390,303
Diluted	2,403,107	2,402,998	2,399,961	2,397,762
Dividends paid per common share	$.215	$ .195	$.625	$ .585

See notes to condensed consolidated financial statements

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
	2003	2002
	(In thousands)	
Operating Activities		
Net income	$1,560	$ 1,298
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,132	2,098
Gain on sale of land	(257)	
Allocation of land cost	--	1,662
Deferred income taxes	1,058	67
Change in other assets and liabilities	145	(180)
Net cash provided by operating activities	4,638	4,945
Investing Activities:		
Purchase of property, plant and equipment and other assets	(5,637)	(3,813)
Proceeds from sale of land, net	257	--
Increase in contributions in aid of construction	144	400
Increase (decrease) in other	(229)	(285)
Net cash used in investing activities	(5,465)	(3,698)
Financing Activities:		
Payments on long-term debt	(92)	(82)
Proceeds from issuance of debt	1,399	92
Payment of common dividends	(1,495)	(1,477)
Proceeds from dividend reinvestment plan & other	6	61
Net cash used in financing activities	(182)	(1,406)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,009)	(159)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,444	3,272
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$1,435	$ 3,113

Supplemental Cash Flow Information: Interest paid was $1,518,000 and $1,520,000 for the nine months ended September 30, 2003 and 2002, respectively. Income taxes paid were $129,000 and $309,000 for the nine months ended September 30, 2003 and 2002, respectively. Non-cash items for the nine months ended September 30, 2003 include the deferred gain on a land sale of $1.224 million and the related long-term note receivable as discussed in Note E of the Notes to Condensed Consolidated Financial Statements and Contributions in Aid of Construction totaling $619,000 and $377,000 for the nine months ended September 30, 2003 and 2002, respectively.

See notes to condensed consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2003

NOTE A -- BACKGROUND

The financial statements include the accounts of Pennichuck Corporation (the "Company") and its wholly-owned subsidiaries, Pennichuck Water Works, Inc. ("Pennichuck"), Pittsfield Aqueduct Company, Inc. ("Pittsfield"), Pennichuck East Utility, Inc. ("Pennichuck East"), The Southwood Corporation ("Southwood") and Pennichuck Water Service Corporation (the "Service Corporation"). The financial statements also include the accounts of Westwood Park LLC ("Westwood") in which Southwood owns a 60% majority interest. All significant intercompany accounts have been eliminated in consolidation.

Certain amounts for the three and nine months ended September 30, 2002 have been reclassified to conform with the 2003 financial statement presentation. These reclassifications had no effect on net income and relate primarily to the disclosure of "other revenues" and "other expenses" as separate line items in the Condensed Consolidated Statements of Income.

NOTE B -- BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-Q and Regulation S-X pertaining to interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. The Balance Sheet amounts shown under the December 31, 2002 column have been derived from the audited financial statements of the Company as contained in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

NOTE C -- NEW ACCOUNTING PRONOUNCEMENTS

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148, "*Accounting for Stock-Based Compensation- Transition and Disclosure- an amendment to FASB Statement No. 123*" ("SFAS 148") which provides for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires prominent disclosures in both interim and annual financial statements about the method of accounting for stock-based employee compensation. At this time, the Company does not intend to change to the fair value based method of accounting for stock-based compensation. On a pro forma basis, the Company's net income and earnings per share for the three and nine months ended

NOTE C -- NEW ACCOUNTING PRONOUNCEMENTS (Continued)

September 30, 2003 and 2002 would have been reduced to the following amounts had compensation cost for the plan been determined consistent with SFAS No. 123, "Accounting for Stock Based Compensation."

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(In thousands, except per share data)			
Net income:				
As reported	$1,022	$1,377	$1,560	$1,298
Deduct total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(8)	(---)	(8)	(87)
Pro forma	$1,014	$1,377	$1,552	$1,211
Basic earnings per share:				
As reported	$.43	$.58	$.65	$.54
Pro forma	$.42	$.58	$.65	$.51
Diluted earnings per share:				
As reported	$.43	$.57	$.65	$.54
Pro forma	$.42	$.57	$.65	$.51

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 applies specifically to a number of financial instruments that companies have historically presented with their financial statements either as equity or between the liabilities section and the equity section, rather than as liabilities. SFAS 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not believe that SFAS 150 will have a material effect on its combined financial statements.

NOTE D – COMMITMENTS AND CONTINGENCIES

Termination of Merger Agreement

On April 29, 2002, the Company entered into a definitive agreement with Philadelphia Suburban Corporation ("PSC") to merge into a wholly-owned subsidiary of PSC with shareholders of the Company receiving shares of PSC in the merger. Under the terms of the agreement, the Company's stockholders would have received a number of shares of PSC common stock based upon the average closing price of PSC common stock for a 20-trading day period ending shortly before the closing of the merger.

Termination of Merger Agreement (Continued)

The merger was subject to several conditions, including, among other things, the satisfaction of the applicable requirements under the Hart-Scott-Rodino Antitrust Improvements Act, approval by the shareholders of the Company and approval by the New Hampshire Public Utilities Commission ("NHPUC"). The review of the merger by the NHPUC and approval by the Company's shareholders was expected to occur in the first half of 2003.

However, on November 26, 2002, the Board of Aldermen of the City of Nashua, New Hampshire adopted a resolution calling for a referendum on January 14, 2003 that, if passed, would authorize Nashua to pursue the acquisition, by an eminent domain proceeding or otherwise, of all or a portion of Pennichuck's water system serving the residents of Nashua and others. The voters of Nashua passed the referendum on January 14, 2003. Subsequently, on February 4, 2003, the Company announced that it had reached an agreement with PSC to terminate PSC's pending acquisition of the Company. The decision to terminate the merger agreement resulted from the ongoing efforts by the City of Nashua (the "City") to acquire Pennichuck's utility plant and property by eminent domain. Expenses associated with the PSC merger transaction and related issues totaled approximately $231,000 (or approximately $139,000 on an after-tax basis) for the nine months ended September 30, 2003.

Pending Municipalization

The City formally notified the Company's utility subsidiaries on February 5, 2003 of its intention to acquire all or a portion of their plant and property. The notification letters from the City stated that the City was acting pursuant to New Hampshire's utility municipalization statute. On March 25, 2003, the Company's three utilities notified the City of their decision not to sell their plant and property. Under New Hampshire statutes, a municipality may seek the NHPUC's authorization to compel the sale of utility assets through an eminent domain proceeding if the utility does not agree to sell the assets voluntarily. By letter dated March 26, 2003, the City indicated its intent to pursue such an eminent domain proceeding. The City and the Company have had discussions since that time regarding the City's desire to acquire the Company's assets, the particular assets that the City is interested in acquiring and the price that the City would be willing to pay for those assets.

On April 8, 2003, the Town of Pittsfield formally notified Pittsfield Aqueduct Company, Inc. that it wished to acquire the plant and property of that company. The letter indicated that the Town was providing its notification pursuant to the New Hampshire utility municipalization statute. By letter dated May 28, 2003, Pittsfield Aqueduct Company, Inc. notified the Town of Pittsfield of its decision not to sell its plant and property.

To date, neither the City of Nashua nor the Town of Pittsfield has commenced an eminent domain proceeding at the NHPUC. If such a proceeding were commenced, it is not certain whether either the City or the Town would ultimately choose to complete the acquisition of any portion of the property of the Company's utility subsidiaries even if the NHPUC ultimately approved such an acquisition and established a price for it. The Company cannot predict the ultimate outcome of these matters. It is possible that, if the acquisition efforts of the City and/or the Town of Pittsfield are successful, the financial position of the Company would be materially impacted. No adjustments have been recorded in the accompanying condensed consolidated financial statements for these uncertainties.

Pending Governmental Investigations

The Company has been informed by the Securities and Exchange Commission and the New Hampshire Bureau of Securities Regulation that it is the subject of related investigations by each regulator. The Company understands that the scope of those investigations relates to various real estate development joint ventures, all of which involved the same developer. One aspect of the investigations relates to a 1998 real estate transaction between one of the joint ventures and Maurice L. Arel, the Company's former President, and, in particular, the Company's previous public disclosure regarding that transaction. The regulators also are questioning whether the Company should have disclosed in its Annual Reports on Form 10-K the aggregate dollar amount of transactions between the joint ventures and a landscaping company with which one of Mr. Arel's sons was involved. The Company has received subpoenas from each regulator, seeking the production of documents in connection with their investigations. The Company believes that it has cooperated fully with both investigations, and it intends to continue to do so.

The Company's board of directors has retained legal counsel to conduct an independent review, under the direction of the Company's Audit Committee, of Mr. Arel's 1998 real estate transaction and other matters that the Company believes are within the scope of the regulatory investigations. The Company's board of directors believes that independent review is substantially complete, and at the board's direction, counsel has briefed the regulators on the board's findings.

As reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB for that year, disclosed that an executive officer had purchased a home in 1998 from a joint venture between a Pennichuck subsidiary and a real estate developer. Note A stated that the terms of the home purchase "were the same as the terms which would be given to any independent third-party purchaser." Mr. Arel is the executive referenced in that disclosure. Based upon the findings of the internal review, the board of directors of the Company has determined that Mr. Arel's 1998 home purchase in fact was not on terms that would have been available then to any independent third-party purchaser.

During the seven-year period from 1996 to 2002, six of the Company's joint ventures engaged for various landscaping projects a company with which one of Mr. Arel's sons was involved. The joint ventures' payments to that landscaping company totaled approximately $517,600 during that period. In three of those years, the aggregate payments for a year exceeded $60,000. In 1999, the joint ventures paid the landscaping company a total of $259,000, the greatest amount that the joint ventures paid to the landscaping company during a single year.

The SEC and the New Hampshire Bureau of Securities Regulation could seek to impose fines, penalties or other sanctions upon the Company as a result of their respective investigations. The Company cannot predict the ultimate outcome of this matter and accordingly, no adjustments have been made in the accompanying condensed consolidated financial statements for these uncertainties.

The board is continuing to consider what action the Company should take against Mr. Arel in light of the terms of his 1998 home purchase, any other issue arising out of the ongoing regulatory investigations, and the related expenses incurred by the Company, among other factors.

Guarantee of Subsidiary Indebtedness

Southwood holds a 50% interest in three limited liability companies known as HECOP I, HECOP II and HECOP III, each of which owns land and a commercial office building, subject to a mortgage note with a local bank. The mortgage notes, totaling $9.26 million, which are not included in the accompanying Condensed Consolidated Balance Sheets, are each secured by the underlying real property. In addition, Southwood is contingently liable on one-half of the outstanding balance, and as such, it has issued a guarantee to the mortgagee for its share of the guaranteed indebtedness. At September 30, 2003, Southwood was contingently liable on approximately $4.63 million of mortgage indebtedness associated with the limited liability companies.

NOTE E – DEFERRED GAIN ON LAND SALE

In January 2003, Southwood sold a tract of land to a regional developer for approximately $1.5 million. Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $260,000 in cash and a long-term note receivable of $1,223,990. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.48 million, of which $260,000, representing the net cash received at closing, is included in "Revenues-Real estate operations." The remaining gain of $1,223,990, represented by the note receivable, has been deferred until payment of the note since the requirements established under Statement of Financial Accounting Standards No. 66, " Accounting for Sales of Real Estate," for recognition of all of the profit from this sale have not yet been met.

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This quarterly report, including management's discussion and analysis, contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding the Company's results of operations and financial condition. Any statements contained herein that do not describe historical facts are forward looking statements. These forward looking statements are based on current information and expectations available to management at the time the statements are made, and are subject to factors and uncertainties that that could cause the Company's actual results to differ materially from those expressed or implied by such forward looking statements. Such statements address the following subjects, among others: likely commencement of eminent domain proceedings before the NHPUC to acquire all or a portion of the Company's water utility assets, and impact thereof on the Company's consolidated business operations and planning; timeliness and extent of water utility rate increases, if any; future operating results in the water utility and real estate sectors; earnings growth and expectations; and corporate spending and liquidity. The following factors, among others, could cause actual results to differ materially from those described in the forward looking statements: with respect to eminent domain proceedings, the timeframe in which proceedings occur, if commenced, and the results thereof or negotiated alternatives thereto; with respect to regulated water utility rate relief, the timing and amount of rate increases as well as general regulatory lag in realizing changes; with respect to water utility operations, the impact of weather, such as the amount of rainfall and temperature; with respect to real estate development, the impact of overall economic conditions in the local and national economy; with respect to corporate spending and liquidity, changes in capital projects that may affect the Company's level of capital expenditures, any enhanced security measures required to be implemented by water utility companies as a result of September 11th concerns, and expenses related to the pending municipalization efforts by the City of Nashua and others and the ongoing governmental investigations. We undertake no obligation to update or revise forward looking statements, whether as a result of new information, future events or otherwise.

Results of Operations -- Three Months Ended September 30, 2003 Compared to Three Months Ended September 30, 2002

For the three months ended September 30, 2003, the Company's consolidated net income was $1,022,000, or $.43 per share, compared to net income of $1,377,000, or $.58 per share, for the same period in 2002. Consolidated revenues for the third quarter of 2003 decreased to $6.39 million from $6.54 million for the same period in 2002. As discussed in greater detail below, the $143,000 decrease in consolidated revenues occurred principally in the Company's regulated water businesses reflecting lower consumption in the third quarter of 2003 compared to the third quarter of 2002.

Our consolidated revenues are generally seasonal due to the overall significance of the water sales of Pennichuck, Pennichuck East and Pittsfield as a percentage of consolidated revenues. Water revenues are typically at their lowest point during the first and fourth quarters of the calendar year while water revenues in the second and third quarters tend to be greater as a result of increased water consumption during the late spring and summer months. In addition, the Company's consolidated revenues may be significantly affected by sales of major real estate parcels, which may occur from time to time (See discussion below under "Real Estate Operations").

PART I. FINANCIAL INFORMATION

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Water Utility Operations

The Company's water utility operations include the combined activities of Pennichuck, Pennichuck East and Pittsfield, each of which is regulated by the New Hampshire Public Utilities Commission (the "NHPUC"). The contribution percentage of each utility in 2003 did not materially change from the same quarter last year. For the three months ended September 30, 2003, approximately 80%, 18% and 2% of the total utility operating revenues of $5,713,000 were generated by Pennichuck, Pennichuck East and Pittsfield, respectively. The following table provides a breakout of quarterly revenues for each of our utilities:

	Quarter Ended September 30,		
	2003	2002	Change
Pennichuck	$4,599,000	$4,770,000	$ (171,000)
Pennichuck East	1,004,000	1,022,000	(18,000)
Pittsfield	110,000	108,000	2,000
Total	$5,713,000	$5,900,000	$(187,000)

Despite a 2.1% increase in the combined utilities' customer base, there was an overall decline in water revenues reflecting significantly more precipitation experienced during the summer of 2003. Total rainfall for the third quarter of 2003 was 13.9" compared to 7.3" in the third quarter of 2002. As a result, billed consumption in Pennichuck was 1.5% lower for the quarter ended September 30, 2003 compared to the same period last year.

In May 2003, Pittsfield filed a Notice of Intent to File for Rate Relief in which it is seeking an increase of approximately $67,000, or 16.3%, in its annual water revenues. As of September 30, 2003, it was still uncertain whether or not this rate case would be concluded by the end of 2003 or the amount of rate increase which will ultimately be granted by the NHPUC, if any. Currently, there are no pending rate filings for either Pennichuck or Pennichuck East.

Total utility operating expenses, which include production, distribution system maintenance, administration, depreciation and taxes other than income taxes, were $3.72 million for the three months ended September 30, 2003, an increase of $622,000 from the same period last year. The increase in utility operating expenses was principally due to:

- a $159,000 increase in local and state property taxes as a result of a $115,000 tax abatement recorded in the third quarter of 2002 from the State of New Hampshire;
- $143,000 of increased administrative and general expenses reflecting additional fees incurred in connection with compliance with the Sarbanes-Oxley Act of 2002, costs incurred with the change in the Company's senior executive position and increased health benefit costs for employees;
- an increase of $46,000 for allocable intercompany charges from the Company and an $82,000 decrease in intercompany charges allocated by Pennichuck to the Company's non-regulated, water business; and
- $81,000 of increased depreciation and amortization expense reflecting additional assets placed in service during the past year.

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Water Utility Operations (Continued)

For the quarter ended September 30, 2003, the combined operating income of our three water utilities was $1,991,000, a decrease of $809,000 over the same quarter in 2002 reflecting the changes in water operating revenues and expenses discussed above.

Real Estate Operations

For the three months ended September 30, 2003, revenues from real estate activities were $147,000, or $120,000 less than in the same period last year. The third quarter revenues in 2003 were comprised principally of $128,000 in net rental income from Southwood's 50% interest in three office buildings located in Merrimack, New Hampshire compared to $167,000 in 2002. In addition to this decrease in net rental income, the overall decline in Southwood revenues resulted from interest income and other fees of $80,000 recognized in last year's third quarter earned on certain mortgage notes receivable due from a local developer as explained in "Liquidity and Financial Condition" below. There were no major land sales by Southwood in either the third quarter of 2003 or the third quarter of 2002.

Southwood holds a 50% interest in three limited liability companies known as HECOP I, HECOP II and HECOP III, each of which owns land and a commercial office building, subject to a mortgage note with a local bank. The mortgage notes, totaling $9.26 million, which are not included in the accompanying Condensed Consolidated Balance Sheets, are each secured by the underlying real property. In addition, Southwood is contingently liable on one-half of the outstanding balance, or $4.63 million, and as such, it has issued a guarantee to the mortgagee for its share of the guaranteed indebtedness.

Contract Operations

The Service Corporation's revenues consist chiefly of fees charged under (i) various operations and billing contracts with the Town of Hudson, New Hampshire and the Town of Salisbury, Massachusetts and (ii) approximately 50 non-transient, non-community water systems ("NTNCWS") throughout southern and central New Hampshire. Revenues from contract operations were $519,000 for the three months ended September 30, 2003, compared to $358,000 for the same period in 2002. The $161,000 increase in contract revenues over the same period last year is principally due to increased fees for additional work conducted under its two major municipal operating contracts as well as standard CPI adjustments to its contract fees contained in Service Corporation's service agreements. For the three months ended September 30, 2003, revenues from contract operations also include approximately $59,000 from its Watertight program compared to $46,000 in the same period of 2002.

Operating expenses associated with contract operations were $438,000 for the third quarter of 2003 as compared to $454,000 for the same period in 2002. The decrease in contract operations expenses resulted from $35,000 of deferred assets written off in 2002, offset partially by approximately $19,000 in increased direct costs associated with the Service Corporation's various operating contracts.

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations -- Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002

For the nine months ended September 30, 2003, the Company's consolidated net income was $1,560,000, compared to consolidated net income of $1,298,000 for the same period in 2002. On a per share basis, basic income per share was $.65 for the nine months ended September 30, 2003, an $.11 per share increase from the same period last year. Net income in 2003 and 2002 has been adversely affected by expenses relating to the terminated merger with PSC as well as the pending regulatory investigations and municipalization efforts discussed in Note D to the Notes to Condensed Consolidated Financial Statements. Excluding the effect of those expenses, however, consolidated net income would have been approximately $2.04 million, or $.85 per share for the nine months ended September 30, 2003 and $2.83 million, or $1.18 per share, for the nine months ended September 30, 2002.

Year-to-date consolidated revenues in 2003 were $16.50 million compared to $18.46 million last year. As discussed below, the decline in consolidated revenues occurred primarily in the Company's real estate business segment due to the sale of a major tract of land in the first quarter of 2002.

Water Utility Operations

Utility operating revenues for the nine months ended September 30, 2003 did not materially change from the same period in 2002 as shown in the table below broken out by each of our regulated water utilities:

	Nine Months Ended September 30,		
	2003	2002	Change
Pennichuck	$11,632,000	$11,651,000	$(19,000)
Pennichuck East	2,358,000	2,354,000	4,000
Pittsfield	343,000	309,000	34,000
Total	$14,333,000	$14,314,000	$ 19,000

For the nine months ended September 30, 2003, 81%, 16% and 3% of the combined utilities' operating income was provided by Pennichuck, Pennichuck East and Pittsfield, respectively, which was comparable to 2002.

Year-to-date billed consumption within the core system of Pennichuck declined 1.95% from the same period last year, although that negative impact on water revenues was partially offset by the positive effect of the 5.76% rate increase implemented by Pennichuck in April 2002. The decline in consumption reflects significantly more precipitation experienced in the regions served by our water utilities during the third quarter of 2003 as discussed previously. Accordingly, water revenues for Pennichuck's core system, as well as Pennichuck East, for the first nine months of 2003 remained relatively flat over the same period last year despite a 2.1% increase in the combined utilities' customer base from September 30, 2002 to September 30, 2003.

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Water Utility Operations (Continued)

For the nine months ended September 30, 2003, utility operating expenses increased by $1,089,000, or 11.6%, to $10,589,000. That combined increase in the utilities' operating expenses over the first nine months of 2002 was chiefly the result of the following:

- $181,000 of increased purification, power and purchased water costs in our core Pennichuck system;
- an increase of approximately $173,000 in distribution system expenses as a result of colder temperatures experienced in the first quarter of 2003 and the utilities' aggressive distribution system flushing program undertaken in the second and third quarters of 2003;
- $118,000 of increased administrative and general costs, principally relating to non-union salaries and compliance requirements of the Sarbanes-Oxley Act of 2002;
- $137,000 of increased expenses associated with various insurance coverages, including property and casualty, health and other employee benefits;
- an increase in local and state property taxes totaling $238,000 as a result of increased additional plant assets placed in service during the past year and taxable by local and state authorities and a $115,000 tax abatement recorded in the third quarter of 2002 from the State of New Hampshire.

For the nine months ended September 30, 2003, the combined operating income of our three water utilities was $3,744,000, a decrease of $1,070,000 over the same period in 2002 as a result of the changes in water operating revenues and expenses discussed above.

Real Estate Operations

For the nine months ended September 30, 2003, revenues from Southwood's real estate activities were $876,000 compared to $3,039,000 for the same period last year. This decrease resulted primarily from the sale of the remaining 40 acres in Southwood Corporate Park in January 2002 for $2.43 million. The remaining infrastructure costs allocable to that sale of approximately $1.66 million are included in "Operating Expenses – Real estate operations" in the accompanying Condensed Consolidated Statements of Income for 2002.

Southwood's revenues for the first nine months of 2003 include approximately $367,000 representing its 50% share of the pretax profits from the office leasing activities of the three LLCs discussed earlier. For the same period in 2002, Southwood's share of pretax operating income from the LLCs was approximately $291,000. The increased net operating income reflects the benefit of a lower interest rate on the mortgage indebtedness which was refinanced in the past year.

Revenue from real estate activities in 2003 also reflects the sale of land to a regional developer in January 2003. Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $260,000 in cash and a long-term note receivable of $1,223,990. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.48 million, of which $260,000, representing the net cash received at closing, is included in "Revenues-Real estate operations." The remaining gain of $1,223,990, represented by the note receivable, has been deferred since the requirements established under Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate," for recognition of all of the

Real Estate Operations (Continued)

profit from this sale have not yet been met. The Company anticipates recognizing the deferred gain on this transaction upon final payment of principal on the note in October 2005.

Operating expenses associated with our real estate activities for the first nine months of 2003 totaled $65,000, comprised chiefly of allocated intercompany charges and property taxes on the remaining Southwood landholdings.

Contract Operations

Revenues from contract operations totaled $1,253,000 for the nine months ended September 30, 2003, representing a $188,000 increase, or 17.7%, over the same period last year. The increase over last year includes (i) the addition of 9 new NTNCWS contracts from September 30, 2002, (ii) $158,000 of contract fees charged for additional work performed under our operating contracts with two municipalities and (iii) CPI increases in contract fees earned in the first nine months of 2003, partially offset by lower revenues from sundry consulting services performed during 2002 compared to 2003.

Operating expenses associated with our contract operations were $1,086,000 and $998,000 for the first nine months of 2003 and 2002, respectively. The net increase in operating expenses associated with our contract operations resulted primarily from increased direct costs of $146,000 associated with additional contract services performed in 2003, partially offset by $53,000 of deferred assets written off during the first nine months of 2002.

Other Expenses

Merger and other expenses for the nine months ended September 30, 2003 totaled $740,000 compared to $1,666,000 during the same period last year. Other expenses in the current year include (i) approximately $231,000 of merger-related fees, (ii) $136,000 of legal and other fees incurred in connection with the pending municipalization process and (iii) $374,000 of legal and other fees relating to the pending regulatory investigations. See Note D to the Notes to Condensed Consolidated Financial Statements. The Company currently expects that the legal and other costs associated with both the current municipalization offer and the ongoing regulatory investigations are likely to continue until the resolution of such matters.

For the nine months ended September 30, 2002, merger and other expenses was comprised chiefly of costs associated with the Company's subsequently terminated merger with Philadelphia Suburban Corporation as discussed in Note D to the Notes to Condensed Consolidated Financial Statements.

Pending Governmental Investigations

The Company has been informed by the Securities and Exchange Commission and the New Hampshire Bureau of Securities Regulation that it is the subject of related investigations by each regulator. The Company understands that the scope of those investigations relates to various real estate development joint ventures, all of which involved the same developer. One aspect of the investigations relates to a 1998 real estate transaction between one of the joint ventures and Maurice L. Arel, the Company's former President, and, in particular, the Company's previous public disclosure

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Pending Governmental Investigations (Continued)

regarding that transaction. The regulators also are questioning whether the Company should have disclosed in its Annual Reports on Form 10-K the aggregate dollar amount of transactions between the joint ventures and a landscaping company with which one of Mr. Arel's sons was involved. The Company has received subpoenas from each regulator, seeking the production of documents in connection with their investigations. The Company believes that it has cooperated fully with both investigations, and it intends to continue to do so.

The Company's board of directors has retained legal counsel to conduct an independent review, under the direction of the Company's Audit Committee, of Mr. Arel's 1998 real estate transaction and other matters that the Company believes are within the scope of the regulatory investigations. The Company's board of directors believes that independent review is substantially complete, and at the board's direction, counsel has briefed the regulators on the board's findings.

As reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, Note A to the Company's 1998 financial statements, which were included in the Company's annual report to shareholders and incorporated into its Annual Report on Form 10-KSB for that year, disclosed that an executive officer had purchased a home in 1998 from a joint venture between a Pennichuck subsidiary and a real estate developer. Note A stated that the terms of the home purchase "were the same as the terms which would be given to any independent third-party purchaser." Mr. Arel is the executive referenced in that disclosure. Based upon the findings of the internal review, the board of directors of the Company has determined that Mr. Arel's 1998 home purchase in fact was not on terms that would have been available then to any independent third-party purchaser.

During the seven-year period from 1996 to 2002, six of the Company's joint ventures engaged for various landscaping projects a company with which one of Mr. Arel's sons was involved. The joint ventures' payments to that landscaping company totaled approximately $517,600 during that period. In three of those years, the aggregate payments for a year exceeded $60,000. In 1999, the joint ventures paid the landscaping company a total of $259,000, the greatest amount that the joint ventures paid to the landscaping company during a single year.

The SEC and the New Hampshire Bureau of Securities Regulation could seek to impose fines, penalties or other sanctions upon the Company as a result of their respective investigations. The Company cannot predict the ultimate outcome of this matter and accordingly, no adjustments have been made in the accompanying condensed consolidated financial statements for these uncertainties.

The board is continuing to consider what action the Company should take against Mr. Arel in light of the terms of his 1998 home purchase, any other issue arising out of the ongoing regulatory investigations, and the related expenses incurred by the Company, among other factors.

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

For the first nine months of 2003, the cash required to fund the Company's normal operating activities and its capital improvements program was derived from a combination of operating cash flow; available short-term investments; low interest, state revolving loan funds; and the Company's line of credit. Typically, our cash needs are at their lowest point of the year during the first quarter and early second quarter since construction activity for our water utilities and the related capital expenditures do not normally begin until the second quarter and continue through the fourth quarter.

The Company maintains a revolving line of credit agreement (the "line of credit") with Fleet National Bank which allows the Company and its subsidiaries to borrow up to $2.5 million at interest rates tied to the bank's cost of funds or LIBOR, whichever is lower. As of September 30, 2003, the Company has borrowed $1 million under this line of credit.

The Company's cash and cash equivalents at September 30, 2003 decreased by $1,009,000 to $1,435,000. Thus far in 2003, our consolidated capital expenditures totaled approximately $5.0 million, net of contributions in aid of construction totaling $144,000. It is anticipated that any additional cash required to fund the Company's remaining $2.5 million of planned capital expenditures, relating principally to utility projects, will be provided by operating cash flow and short-term borrowings under the line of credit.

Cash flow from operating activities for the nine months ended September 30, 2003 was approximately $4.64 million, of which nearly $3.5 million was provided by the Company's water utility operations. The Company's consolidated cash flow and earnings continue to be adversely affected by the continuing costs associated with the pending regulatory investigations and the municipalization efforts by the City of Nashua which totaled $374,000 and $136,000, respectively, through September 30, 2003.

The "Long-term note receivable" balance of $1.2 million at September 30, 2003 represents a note received by Southwood from the sale of a 66.8 acre tract of land to a regional developer in January 2003. Under the terms of that sale, Southwood conveyed approximately 66.8 acres of land in exchange for approximately $260,000 in cash and a long-term note receivable of $1,223,990. The note, which matures in October 2005, carries a floating interest rate of prime plus 1.5% and is secured by a first mortgage on the property. The pretax gain on that sale was approximately $1.48 million, of which $260,000, representing the net cash received at closing, is included in "Revenues-Real Estate Operations." The remaining gain of approximately $1.22 million, represented by the note receivable, has been deferred until payment of the note since the requirements established under Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate," for recognition of all of the profit from this sale has not yet been met.

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of other major changes in the Company's consolidated financial position from December 31, 2002 to September 30, 2003.

- "Notes receivable" included under Current Assets decreased by $605,000 reflecting the net payments received on a development and construction loan to a local developer which were repaid in full in May 2003.

- The $710,000 increase in "Accounts receivable" from December 31, 2002 to September 30, 2003 reflects summer consumption which typically exceeds consumption in the fourth quarter.

- "Prepaid and other current assets" decreased by $331,000 from the end of 2002 primarily due to the amortization of certain prepaid property taxes during the nine months ended September 30, 2003.

- Consolidated "Accounts payable" at September 30, 2003 was $1.01 million, compared to $673,000 at December 31, 2002. This increase principally reflects additional vendor invoices associated with inventory purchases and additional retainage amounts with contractors for repairs, improvements, and certain capital projects.

- "Deferred income taxes" increased $1,058,000 to $7,692,000 as of September 30, 2003. The increase reflects the tax impact of certain major timing differences, principally increased accelerated depreciation resulting from greater bonus depreciation allowances, which are expected to be realized for the year ending December 31, 2003.

- Retained earnings increased from $13,941,000 at the end of 2002 to $14,006,000 at September 30, 2003 as a result of net income earned of $1,560,000 for the first nine months of 2003 offset by common dividends paid of $1,495,000.

PART I. FINANCIAL INFORMATION
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies, Significant Estimates and Judgments

The Company has identified the accounting policies below as those policies critical to the business operations and the understanding of the results of operations. The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. Accounting principles generally accepted in the United States require us to make estimates and judgments in several areas. Our critical accounting policies are as follows:

The use of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards ("SFAS") No 71, "Accounting for the Effects of Certain Types of Regulation" stipulates generally accepted accounting principles for companies whose rates are established by or are subject to approval by an independent third-party regulator. In accordance with SFAS No. 71, we defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in the period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in our rates charged for water utility operations. In the event that our assessment as to the probability of the inclusion in the rate-making process is incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

Accrued unbilled revenue - We read our customer meters on a cyclical basis and record our revenue based on our meter reading results. Revenues from the meter-reading date to the end of the accounting period are estimated based on historical usage patterns and the effective tariff rates. The estimate of the unbilled revenue is a management estimate utilizing certain sets of assumptions and conditions. Actual results could differ from those estimates.

PART I. FINANCIAL INFORMATION
Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has entered into two interest rate swap agreements at a fixed rate of 6.5% in order to mitigate interest rate risks associated with its floating-rate loans. The agreements provide for the exchange of fixed interest rate payments for floating interest rate payment obligations on notional amounts of principal totaling $6,000,000. The Company has designated these interest rate swaps as a cash flow hedge against the variable future cash flows associated with the interest payments due on $6,000,000 of notes. As of September 30, 2002, the Company has recorded a liability of $546,000 in "Other liabilities and deferred credits" associated with these swap agreements with the offsetting amount in "Accumulated Other Comprehensive Income" in the accompanying Condensed Consolidated Balance Sheets.

The fair market value of the Company's interest rate swaps represents the estimated unrealized loss to terminate these agreements based upon current interest rates.

PART I. FINANCIAL INFORMATION
Item 4: CONTROLS AND PROCEDURES

We have established disclosure controls and procedures designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 ("Exchange Act").

Based on an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act) required by Rule 13a-15(b) as of September 30, 2003, the end of the period covered by this Quarterly Report on Form 10-Q, the principal executive officer and principal financial officer have concluded that such disclosure controls and procedures are effective to provide reasonable assurance that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable Securities and Exchange Commission's rules and forms.

There were no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION
Item 6. EXHIBITS AND REPORTS ON FORM 8-K:

(a) The following exhibits are filed as part of this report:

Exhibit Number	**Exhibit Description**
10.14	Employment Agreement between Donald L. Correll and Pennichuck Corporation dated August 4, 2003 (Filed as Exhibit 10.14 to this report on Form 10-Q)
31.1	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 31.1 to this report on Form 10-Q)
31.2	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 31.2 to this report on Form 10-Q)
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 (Filed as Exhibit 32 to this report on Form 10-Q)

PART II. OTHER INFORMATION
Item 6. EXHIBITS AND REPORTS ON FORM 8-K:

(b) The following report on Form 8-K was filed during the third quarter of 2003:

1. Current Report on Form 8-K dated August 4, 2003 under the caption "Item 5. Other Events and Regulation FD Disclosure."

SIGNATURES

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

Pennichuck Corporation
(Registrant)

Date: November 13, 2003

/s/ Donald L. Correll
Donald L. Correll, President and
Principal Executive Officer

Date: November 13, 2003

/s/ Charles J. Staab
Charles J. Staab, Vice President,
Treasurer and Principal Financial
Officer

Exhibit 31.1

CERTIFICATION

I, Donald L. Correll, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pennichuck Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Donald L. Correll — November 13, 2003
Donald L. Correll
Principal Executive Officer

Exhibit 31.2

CERTIFICATION

I, Charles J. Staab, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pennichuck Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Charles J. Staab
Charles J. Staab
Principal Financial Officer

November 13, 2003

Exhibit 32

SECTION 1350 CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officers of Pennichuck Corporation (the "Company") hereby certify that, as of the date of this statement, the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the three and nine month periods ended September 30, 2003.

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002. This statement is not "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Act or any other federal or state law or regulation.

Date: November 13, 2003

/s/ Donald L. Correll
Name: Donald L. Correll
Title: Principal Executive Officer

Date: November 13, 2003

/s/ Charles J. Staab
Name: Charles J. Staab
Title: Principal Financial Officer

Pennichuck East Utility, Inc.
Meetings and Conventions
For the Twelve Months Ended December 31, 2004

Organization	Description	Employee	Amount
	NONE		

Membership Fees & Dues

Pennichuck East Utility, Inc.
Membership Fees and Dues
For the Twelve Months Ended December 31, 2004

Organization	Description	Amount
	NONE	

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

(12) Recent Management and Depreciation Studies – No Management Study has been undertaken by the Company. Pennichuck East Utility, Inc. is in the process of conducting a Depreciation Study. The Study will be provided upon completion.

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

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

PENNICHUCK CORPORATION

OFFICERS AND DIRECTORS COMPENSATION

OFFICERS *	SALARIES 2004	SALARIES 2003	SHARES OWNED AS OF 12/31/2004
DONALD CORRELL	250,000	150,000	30,100
STEPHEN J. DENSBERGER	135,000	130,095	36,589
CHARLES J. STAAB	119,808	119,808	26,834
BONALYN J. HARTLEY	111,176	111,176	18,693
DONALD L. WARE	135,000	125,000	24,560

DIRECTORS	PAID 2004	PAID 2003	SHARES OWNED AS OF 12/31/2004
JOSEPH A. BELLAVANCE	18,300	20,850	11,692
CHARLES E. CLOUGH	19,350	25,700	24,353
JOHN R. KREICK	19,200	24,500	740
ROBERT P. KELLER	20,100	24,125	2,411
HANNAH M. MCCARTHY	16,800	24,550	732
MARTHA E. O'NEILL	17,150	23,100	12,200
MICHELLE L. CHICOINE	17,750	-	-
STEVEN F. BOLANDER	13,767	-	-

* Officer's salaries are approved salaries as of April 1, 2004 and April 1, 2003, respectively.

PENNICHUCK CORPORATION

OFFICERS AND DIRECTORS COMPENSATION

OFFICERS *	SALARIES 2004	SALARIES 2003	SHARES OWNED AS OF 12/31/2004
DONALD CORRELL	250,000	150,000	30,100
STEPHEN J. DENSBERGER	135,000	130,095	36,589
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MARTHA E. O'NEILL	17,150	23,100	12,200
MICHELLE L. CHICOINE	17,750	-	-
STEVEN F. BOLANDER	13,767	-	-

* Officer's salaries are approved salaries as of April 1, 2004 and April 1, 2003, respectively.

Pennichuck East Utility, Inc.
Contractual Services
For the 12 Months Ended December 31, 2004

Pay to Individuals	Address	Amount
Town of Hudson - Water Utility	12 School Street Hudson, NH 03051	129,616
Town of Hudson - Water Utility supplies bulk water to PEU		
Manchester Water Works	PO Box 9677 Manchester, NH 03108	205,704
Manchester Water Works supplies bulk water to PEU		
PSNH	PO Box 360 Manchester, NH 03105	75,569
PSNH supplies electricity to PEU		

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

(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

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

PENNICHUC EAST UTILITY
QUARTERLY STATEMENTS OF INCOME
CY 2000

	3 Months Ended 03/31/00	3 Months Ended 6/30/2000	6 Months Ended 6/30/2000	3 Months Ended 9/30/2000	9 Months Ended 9/30/2000	3 Months Ended 12/31/2000	12 Months Ended 12/31/2000
Water Revenues	$ 560,340	$ 604,709	$ 1,165,049	$ 704,797	$ 1,869,846	$ 592,624	$ 2,462,470
Other	2,292	5,719	8,011	5,022	13,033	8,909	21,942
Total Revenues	562,632	610,428	1,173,060	709,819	1,882,879	601,533	2,484,412
Operating Expenses:							
Production	122,394	138,291	260,685	157,872	418,557	182,296	600,853
Trans & Distrib	32,116	45,552	77,668	32,868	110,536	49,551	160,087
Customer Accting	14,000	18,221	32,221	22,569	54,790	19,994	74,784
Admin & General	2,713	9,515	12,228	4,698	16,926	13,423	30,349
Interdiv Mgt Fee	93,975	93,975	187,950	99,227	287,177	100,112	387,289
	265,198	305,554	570,752	317,234	887,986	365,376	1,253,362
Depreciation/Amort	47,277	54,771	102,048	53,180	155,228	54,972	210,200
Amort Exp: CIAC	(1,251)	(1,250)	(2,501)	(1,253)	(3,754)	(11,011)	(14,765)
Taxes other than Income	49,357	73,600	122,957	75,707	198,664	106,155	304,819
Income Taxes	54,703	45,229	99,932	78,787	178,719	5,842	184,561
	415,284	477,904	893,188	523,655	1,416,843	521,334	1,938,177
Operating Income	147,348	132,524	279,872	186,164	466,036	80,199	546,235
Other Income (Exp)	1,112	1,204	2,316	1,302	3,618	1,055	4,673
AFDUC	-	-	-	-	-	-	-
Interest on LTD	74,087	74,601	148,688	74,750	223,438	73,937	297,375
Interest on STD	(12,324)	(12,917)	(25,241)	(11,211)	(36,452)	(3,846)	(40,298)
Amortization	2,133	2,133	4,266	2,133	6,399	2,133	8,532
	63,896	63,817	127,713	65,672	193,385	72,224	265,609
Net Income (Loss)	84,564	69,911	154,475	121,794	276,269	9,030	285,299
Preferred Dividends	-	-	-	-	-	-	-
Common Dividends	(17,496)	(17,523)	(35,019)	(17,552)	(52,571)	(17,579)	(70,150)
	(17,496)	(17,523)	(35,019)	(17,552)	(52,571)	(17,579)	(70,150)
Transferred to Retained Earnings	$ 67,068	$ 52,388	$ 119,456	$ 104,242	$ 223,698	$ (8,549)	$ 215,149

PENNICHUCK EAST UTILITY
BALANCE SHEET
CY 2000

	12/31/1999	3/31/2000	6/30/2000	9/30/2000	12/31/2000
ASSETS					
Plant in Service	$ 9,301,742	$ 9,563,363	$ 9,596,265	$ 11,057,889	$ 12,126,156
Accumulated Depreciation	(2,479,219)	(2,522,719)	(2,573,219)	(2,732,929)	(2,798,558)
	6,822,523	7,040,644	7,023,046	8,324,960	9,327,598
CWIP	105,278	105,278	105,278	67,207	120,610
Total Plant	6,927,801	7,145,922	7,128,324	8,392,167	9,448,208
Cash	-	-	-	-	-
Restricted Cash	-	-	-	-	-
Interco Cash	-	363,588	567,165	1,086,262	-
Interco Receivable	-	(233,535)	(481,071)	(1,731,995)	-
A/R	297,619	280,833	327,636	352,204	274,420
Inventory	8,884	6,160	5,443	6,945	15,015
Prepaids	100	199	200	52,096	12,683
Total Current Assets	306,603	417,245	419,373	(234,488)	302,118
Unamort Debt Expense	44,819	42,687	40,554	38,421	36,288
Restricted Cash - Derry	225,640	240,585	253,396	271,911	276,776
Abandoned Property	-	-	-	-	-
Other Assets	163,295	160,509	172,615	171,131	166,011
	433,754	443,781	466,565	481,463	479,075
Total Assets	$ 7,668,158	$ 8,006,948	$ 8,014,262	$ 8,639,142	$ 10,229,401

PENNICHUCK EAST UTILITY
BALANCE SHEET
CY 2000

	12/31/1999	3/31/2000	6/30/2000	9/30/2000	12/31/2000
EQUITY & LIABILITIES					
Preferred Stock	-	$ -	$ -	$ -	-
Common Stock	100	100	100	100	100
Paid in Capital	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Retained Earnings	578,945	646,013	698,401	802,643	794,094
	3,579,045	3,646,113	3,698,501	3,802,743	3,794,194
Long Term Debt	-	-	-	-	-
Notes Payable	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
Advances form Parent	(1,047,898)	(1,047,898)	(1,047,898)	(1,047,898)	(632,280)
Current Portion LTD	-	-	-	-	-
Accounts Payable & Accruals	53,507	98,241	41,494	268,397	65,231
Hardship Account	-	-	24	29	(241)
Income Taxes	(24,179)	(13,038)	(4,559)	10,121	11,311
Customer Deposits	-	-	-	-	-
Intercompany Payable	-	-	-	-	-
	29,328	85,203	36,959	278,547	76,301
Customer Advances	-	-	-	6,000	12,000
Unamortized ITC	-	-	-	-	-
Deferred Taxes	351,846	351,846	351,846	351,846	672,981
Other Long Term Liability	-	-	-	-	-
CIAC	255,837	471,684	474,854	747,904	1,806,205
	607,683	823,530	826,700	1,105,750	2,491,186
Total Equity & Liabilities	$ 7,668,158	$ 8,006,948	$ 8,014,262	$ 8,639,142	$ 10,229,401

PENNICHU(EAST UTILITY
QUARTERLY STATEMENTS OF INCOME
CY 2001

	3 Months Ended 03/31/01	3 Months Ended 6/30/2001	6 Months Ended 6/30/2001	3 Months Ended 9/30/2001	9 Months Ended 9/30/2001	3 Months Ended 12/31/2001	12 Months Ended 12/31/2001
Water Revenues	$ 599,879	$ 757,862	$ 1,357,741	$ 865,309	$ 2,223,050	$ 643,828	$ 2,866,879
Other	5,318	5,804	11,122	8,571	19,693	8,535	28,228
Total Revenues	605,196	763,667	1,368,863	873,880	2,242,743	652,363	2,895,107
Operating Expenses:							
Production	122,659	156,632	279,291	163,986	443,277	139,677	582,955
Trans & Distrib	27,076	76,775	103,851	33,658	137,509	40,641	178,150
Customer Accting	15,556	21,537	37,092	25,034	62,126	24,164	86,290
Admin & General	3,880	13,864	17,745	6,696	24,440	11,999	36,439
Interdiv Mgt Fee	102,173	125,951	228,124	124,132	352,256	158,259	510,515
	271,344	394,759	666,104	353,505	1,019,609	374,740	1,394,349
Depreciation/Amort	57,773	60,277	118,051	63,918	181,969	77,193	259,162
Amort Exp: CIAC	(6,893)	(6,893)	(13,785)	(6,893)	(20,678)	(13,032)	(33,709)
Taxes other than Income	78,206	75,159	153,365	96,927	250,292	104,414	354,707
Income Taxes	55,524	66,876	122,400	116,737	239,137	14,929	254,066
	455,955	590,180	1,046,134	624,195	1,670,329	558,245	2,228,574
Operating Income	149,242	173,487	322,729	249,686	572,414	94,118	666,533
Other Income (Exp)	328	252	579	729	1,308	1,667	2,975
AFDUC	-	-	-	-	-	-	-
Interest on LTD	73,125	74,750	147,875	76,375	224,250	74,047	298,297
Interest on STD	(11,520)	(6,521)	(18,041)	(3,477)	(21,518)	(3,156)	(24,674)
Amortization	2,133	2,133	4,266	2,133	6,399	2,133	8,532
	63,738	70,362	134,100	75,031	209,131	73,024	282,155
Net Income (Loss)	85,831	103,377	189,208	175,383	364,591	22,761	387,352
Preferred Dividends	-	-	-	-	-	-	-
Common Dividends	(17,791)	(17,840)	(35,631)	(17,866)	(53,496)	(17,889)	(71,385)
	(17,791)	(17,840)	(35,631)	(17,866)	(53,496)	(17,889)	(71,385)
Transferred to Retained Earnings	$ 68,040	$ 85,537	$ 153,577	$ 157,517	$ 311,095	$ 4,872	$ 315,967

PENNICHUCK EAST UTILITY
BALANCE SHEET
CY 2001

	12/31/2000	3/31/2001	6/30/2001	9/30/2001	12/31/2001
ASSETS					
Plant in Service	$ 12,126,156	$ 12,340,467	$ 12,729,877	$ 13,060,409	$ 14,405,064
Accumulated Depreciation	(2,798,558)	(2,900,495)	(3,005,463)	(3,109,552)	(3,227,404)
	9,327,598	9,439,972	9,724,414	9,950,857	11,177,660
CWIP	120,610	129,098	132,658	36,694	90,466
Total Plant	9,448,208	9,569,070	9,857,073	9,987,551	11,268,126
Cash	-	-	-	-	-
Restricted Cash	-	-	-	-	-
Interco Cash	-	387,798	625,615	1,349,384	-
Interco Receivable	-	(63,050)	(886,957)	(1,263,675)	-
A/R	274,420	279,903	410,945	428,628	297,725
Inventory	15,015	15,896	6,346	3,491	2,944
Prepaids	12,683	300	300	300	300
Total Current Assets	302,118	620,847	156,250	518,127	300,969
Unamort Debt Expense	36,288	34,155	32,022	29,889	27,756
Restricted Cash - Derry	276,776	-	278,542	-	-
Abandoned Property	-	-	-	-	-
Other Assets	166,011	161,408	147,137	312,165	532,648
	479,075	195,563	457,701	342,053	560,403
Total Assets	$ 10,229,401	$ 10,385,480	$ 10,471,023	$ 10,847,731	$ 12,129,498

PENNICHUCK EAST UTILITY
BALANCE SHEET
CY 2001

	12/31/2000	3/31/2001	6/30/2001	9/30/2001	12/31/2001
EQUITY & LIABILITIES					
Preferred Stock	$ -	$ -	$ -	$ -	$ -
Common Stock	100	100	100	100	100
Paid in Capital	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Retained Earnings	794,094	862,134	947,671	1,105,188	1,110,061
	3,794,194	3,862,234	3,947,771	4,105,288	4,110,161
Long Term Debt	-	-	-	-	-
Notes Payable	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
Advances form Parent	(632,280)	(632,280)	(632,280)	(632,280)	(365,785)
Current Portion LTD	-	-	-	-	-
Accounts Payable & Accruals	65,231	75,448	12,005	75,671	300,529
Hardship Account	(241)	(237)	(661)	(661)	(656)
Income Taxes	11,311	22,619	36,240	62,628	32,269
Customer Deposits	-	-	-	-	-
Intercompany Payable	-	-	-	-	-
	76,301	97,831	47,584	137,638	332,143
Customer Advances	12,000	-	-	-	1,050
Unamortized ITC	-	-	-	-	-
Deferred Taxes	672,981	672,981	672,981	672,981	934,775
Other Long Term Liability	-	-	-	-	-
CIAC	1,806,205	1,884,714	1,934,967	2,064,104	2,617,155
	2,491,186	2,557,695	2,607,948	2,737,085	3,552,980
Total Equity & Liabilities	$ 10,229,401	$ 10,385,480	$ 10,471,023	$ 10,847,731	$ 12,129,498

PENNICHUC AST UTILITY
QUARTERLY STATEMENTS OF INCOME
CY 2002

	3 Months Ended 3/31/2002	3 Months Ended 6/30/2002	6 Months Ended 6/30/2002	3 Months Ended 9/30/2002	9 Months Ended 9/30/2002	3 Months Ended 12/31/2002	12 Months Ended 12/31/2002
Water Revenues	$ 607,884	$ 711,572	$ 1,319,456	$ 1,012,117	$ 2,331,573	$ 736,545	$ 3,068,119
Other	5,348	7,147	12,495	10,234	22,729	6,731	29,460
Total Revenues	613,232	718,719	1,331,951	1,022,351	2,354,302	743,276	3,097,579
Operating Expenses:							
Production	118,039	142,957	260,996	181,625	442,621	147,627	590,248
Trans & Distrib	39,514	47,233	86,748	53,029	139,777	47,930	187,707
Customer Accting	15,572	21,529	37,100	31,695	68,795	25,621	94,416
Admin & General	6,859	12,783	19,642	4,251	23,894	8,006	31,899
Interdiv Mgt Fee	131,116	77,984	209,100	296,019	505,119	155,273	660,392
	311,100	302,486	613,586	566,619	1,180,206	384,457	1,564,662
Depreciation/Amort	81,349	31,405	112,754	56,802	169,556	168,036	337,592
Amort Exp: CIAC	(6,893)	44,376	37,483	12,560	50,043	(96,736)	(46,693)
Taxes other than Income	83,318	84,882	168,200	70,773	238,973	96,369	335,342
Income Taxes	31,377	73,020	104,397	97,461	201,858	47,368	249,226
	500,251	536,169	1,036,420	804,216	1,840,636	599,494	2,440,130
Operating Income	112,981	182,550	295,531	218,135	513,666	143,782	657,448
Other Income (Exp)	-	-	-	-	-	-	-
AFDUC	-	-	-	-	-	-	-
Interest on LTD	71,504	76,375	147,879	73,938	221,817	73,938	295,754
Interest on STD	(8,495)	(7,484)	(15,979)	(6,774)	(22,753)	(3,496)	(26,249)
Amortization	2,133	2,333	4,466	2,379	6,845	1,123	7,968
	65,142	71,224	136,366	69,542	205,909	71,564	277,473
Net Income (Loss)	47,839	111,326	159,164	148,593	307,757	72,218	379,975
Preferred Dividends	-	-	-	-	-	-	-
Common Dividends	(23,883)	(42,481)	(66,364)	(23,914)	(90,278)	(23,914)	(114,192)
	(23,883)	(42,481)	(66,364)	(23,914)	(90,278)	(23,914)	(114,192)
Transferred to Retained Earnings	$ 23,956	$ 68,844	$ 92,801	$ 124,679	$ 217,479	$ 48,303	$ 265,783

PENNICHUCK EAST UTILITY
BALANCE SHEET
CY 2002

	12/31/2001	3/31/2002	6/30/2002	9/30/2002	12/31/2002
ASSETS					
Plant in Service	$ 14,405,064	$ 14,472,946	$ 14,705,112	$ 14,925,392	$ 15,892,553
Accumulated Depreciation	(3,227,404)	(3,342,424)	(3,459,424)	(3,329,200)	(3,311,689)
	11,177,660	11,130,522	11,245,688	11,596,192	12,580,864
CWIP	90,466	92,791	85,703	13,032	200,294
Total Plant	11,268,126	11,223,313	11,331,391	11,609,224	12,781,158
Cash	-	-	-	-	-
Restricted Cash	-	-	-	-	-
Interco Cash	-	149,175	377,246	1,035,417	-
Interco Receivable	-	(241,180)	(692,926)	(1,511,080)	-
A/R	297,725	287,175	368,012	470,701	409,272
Inventory	2,944	(974)	2,625	2,744	1,877
Prepaids	300	400	-	-	-
Total Current Assets	300,969	194,595	54,957	(2,218)	411,149
Unamort Debt Expense	27,756	26,433	26,050	26,836	19,787
Restricted Cash - Derry	-	-	-	-	-
Abandoned Property	-	-	10,216	10,216	9,705
Other Assets	532,648	537,738	517,961	509,735	505,230
	560,403	564,171	554,226	546,787	534,722
Total Assets	$ 12,129,498	$ 11,982,079	$ 11,940,575	$ 12,153,793	$ 13,727,029

PENNICHUCK EAST UTILITY
BALANCE SHEET
CY 2002

EQUITY & LIABILITIES	12/31/2001	3/31/2002	6/30/2002	9/30/2002	12/31/2002
Preferred Stock	$ -	$ -	$ -	$ -	$ -
Common Stock	100	100	100	100	100
Paid in Capital	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Retained Earnings	1,110,061	1,134,017	1,202,862	1,327,540	1,375,844
	4,110,161	4,134,117	4,202,962	4,327,640	4,375,944
Long Term Debt	-	-	-	-	-
Notes Payable	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
Advances form Parent	(365,785)	(365,785)	(365,785)	(365,785)	11,836
Current Portion LTD	-	-	-	-	-
Accounts Payable & Accruals	300,529	123,995	26,129	94,330	72,997
Hardship Account	(656)	4,662	4,668	4,654	4,670
Income Taxes	32,269	39,002	53,602	74,516	-
Customer Deposits	-	-	-	-	-
Intercompany Payable	-	-	-	-	-
	332,143	167,659	84,399	173,500	77,667
Customer Advances	1,050	1,050	510	2,040	2,040
Unamortized ITC	-	-	-	-	-
Deferred Taxes	934,775	934,775	934,775	934,775	1,333,181
Other Long Term Liability	-	-	-	-	-
CIAC	2,617,155	2,610,262	2,583,714	2,581,623	3,426,362
	3,552,980	3,546,087	3,518,999	3,518,438	4,761,583
Total Equity & Liabilities	$ 12,129,498	$ 11,982,079	$ 11,940,575	$ 12,153,793	$ 13,727,029

PENNICHUC \AST UTILITY
QUARTERLY STATEMENTS OF INCOME
CY 2003

	3 Months Ended 3/31/2003	3 Months Ended 6/30/2003	6 Months Ended 6/30/2003	3 Months Ended 9/30/2003	9 Months Ended 9/30/2003	3 Months Ended 12/31/2003	12 Months Ended 12/31/2003
Water Revenues	$ 584,854	$ 754,091	$ 1,338,945	$ 995,287	$ 2,334,231	$ 612,564	$ 2,946,795
Other	7,623	7,934	15,557	8,537	24,094	8,301	32,395
Total Revenues	592,477	762,025	1,354,502	1,003,823	2,358,325	620,865	2,979,190
Operating Expenses:							
Production	136,160	145,259	281,419	186,007	467,425	169,982	637,407
Trans & Distrib	49,562	140,163	189,725	73,591	263,316	52,033	315,349
Customer Accting	19,709	21,399	41,108	26,336	67,444	20,786	88,230
Admin & General	6,742	14,543	21,285	17,504	38,789	(5,835)	32,954
Interdiv Mgt Fee	153,415	145,460	298,875	124,401	423,276	219,437	642,713
	365,587	466,824	832,411	427,839	1,260,250	456,403	1,716,653
Depreciation/Amort	86,515	90,789	177,304	96,637	273,941	115,178	389,119
Amort Exp: CIAC	(13,232)	(13,520)	(26,751)	(13,956)	(40,707)	(17,512)	(58,219)
Taxes other than Income	87,736	87,679	175,416	87,679	263,095	83,647	346,742
Income Taxes	(1,128)	17,661	16,533	127,232	143,765	(41,137)	102,628
	525,478	649,435	1,174,913	725,432	1,900,344	596,579	2,496,923
Operating Income	66,999	112,590	179,589	278,392	457,981	24,286	482,266
Other Income (Exp)	-	-	-	-	-	-	-
AFDUC	-	-	-	-	-	(4,261)	(4,261)
Interest on LTD	73,961	73,951	147,912	74,010	221,922	73,938	295,860
Interest on STD	(7,376)	9,580	2,204	8,269	10,473	15,194	25,667
Amortization	2,133	2,133	4,266	2,133	6,399	2,133	8,532
	68,718	85,664	154,382	84,412	238,794	87,003	325,797
Net Income (Loss)	(1,719)	26,926	25,207	193,980	219,187	(62,718)	156,469
Preferred Dividends	-	-	-	-	-	-	-
Common Dividends	(23,914)	(23,914)	(47,829)	-	(47,829)	-	(47,829)
	(23,914)	(23,914)	(47,829)	-	(47,829)	-	(47,829)
Transferred to Retained Earnings	$ (25,634)	$ 3,011	$ (22,622)	$ 193,980	$ 171,358	$ (62,718)	$ 108,640

PENNICHUCK EAST UTILITY
BALANCE SHEET
CY 2003

	12/31/2002	3/31/2003	6/30/2003	9/30/2003	12/31/2003
ASSETS					
Plant in Service	$ 15,892,553	$ 16,017,577	$ 16,935,506	$ 17,553,612	$ 19,423,704
Accumulated Depreciation	(3,311,689)	(3,432,338)	(3,557,376)	(3,688,639)	(3,834,904)
	12,580,864	12,585,239	13,378,129	13,864,973	15,588,799
CWIP	200,294	179,590	17,645	17,645	49,092
Total Plant	12,781,158	12,764,829	13,395,774	13,882,618	15,637,891
Cash	-	-	-	-	-
Restricted Cash	-	-	-	-	-
Interco Cash	-	484,102	862,168	1,621,907	-
Interco Receivable	-	(275,824)	(1,212,810)	(2,020,591)	-
A/R	409,272	316,894	388,959	475,604	360,084
Inventory	1,877	1,170	3,157	88	(824)
Prepaids	-	-	224	197	170
Total Current Assets	411,149	526,342	41,699	77,205	359,430
Unamort Debt Expense	19,787	17,654	15,521	13,388	11,255
Restricted Cash - Derry	-	-	-	-	-
Abandoned Property	9,705	9,449	9,194	12,341	19,357
Other Assets	505,230	556,462	560,100	554,440	536,968
	534,722	583,565	584,815	580,169	567,580
Total Assets	$ 13,727,029	$ 13,874,737	$ 14,022,287	$ 14,539,992	$ 16,564,902

PENNICHUCK EAST UTILITY
BALANCE SHEET
CY 2003

EQUITY & LIABILITIES	**12/31/2002**	**3/31/2003**	**6/30/2003**	**9/30/2003**	**12/31/2003**
Preferred Stock	$ -	$ -	$ -	$ -	$ -
Common Stock	100	100	100	100	100
Paid in Capital	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Retained Earnings	1,375,844	1,350,210	1,353,222	1,547,201	1,484,484
	4,375,944	4,350,310	4,353,322	4,547,301	4,484,584
Long Term Debt	-	-	-	-	-
Notes Payable	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
LTD: SRF Loan - Green Hills	-	89,257	195,892	398,961	398,961
Advances form Parent	11,836	11,836	11,836	11,836	955,721
Current Portion LTD	-	-	-	-	-
Accounts Payable & Accruals	72,997	136,281	87,085	119,754	87,202
Hardship Account	4,670	3,350	3,378	3,379	3,388
Income Taxes	-	-	-	-	-
Customer Deposits	-	-	-	-	-
Intercompany Payable	-	-	-	-	-
	77,667	139,631	90,463	123,132	90,590
Customer Advances	2,040	2,550	2,550	19,665	1,760
Unamortized ITC	-	-	-	-	-
Deferred Taxes	1,333,181	1,355,681	1,378,181	1,400,681	2,067,217
Other Long Term Liability	-	-	-	-	-
CIAC	3,426,362	3,425,472	3,490,044	3,538,416	4,066,069
	4,761,583	4,783,703	4,870,775	4,958,762	6,135,046
Total Equity & Liabilities	$ 13,727,029	$ 13,874,737	$ 14,022,287	$ 14,539,992	$ 16,564,902

PENNICHUC AST UTILITY
QUARTERLY STATEMENTS OF INCOME
CY 2004

	3 Months Ended 3/31/2004	3 Months Ended 6/30/2004	6 Months Ended 6/30/2004	3 Months Ended 9/30/2004	9 Months Ended 9/30/2004	3 Months Ended 12/31/2004	12 Months Ended 12/31/2004
Water Revenues	$ 658,164	$ 803,186	$ 1,461,351	$ 947,808	$ 2,409,159	$ 706,897	$ 3,116,056
Other	4,376	3,867	8,243	6,894	15,137	4,655	19,792
Total Revenues	662,540	807,053	1,469,594	954,703	2,424,296	711,551	3,135,848
Operating Expenses:							
Production	168,841	175,230	344,071	254,358	598,428	187,875	786,303
Trans & Distrib	56,063	60,738	116,801	55,559	172,360	50,134	222,494
Customer Accting	18,471	20,516	38,987	21,397	60,385	22,320	82,705
Admin & General	7,078	10,213	17,290	3,478	20,768	4,582	25,350
Interdiv Mgt Fee	176,020	192,940	368,960	224,626	593,586	295,414	889,000
	426,472	459,637	886,109	559,418	1,445,527	560,325	2,005,852
Depreciation/Amort	107,885	113,529	221,414	105,980	327,394	113,911	441,305
Amort Exp: CIAC	(15,964)	(16,108)	(32,072)	(17,184)	(49,256)	(21,341)	(70,597)
Taxes other than Income	90,070	93,713	183,783	93,713	277,496	19,730	297,226
Income Taxes	(7,827)	29,013	21,186	56,318	77,504	(15,439)	62,065
	600,636	679,783	1,280,420	798,245	2,078,665	657,186	2,735,851
Operating Income	61,904	127,270	189,174	156,458	345,631	54,365	399,997
Other Income (Exp)	10,000	-	10,000	-	10,000	-	10,000
AFDUC	-	-	-	(14,577)	(14,577)	(13,720)	(28,297)
Interest on LTD	73,938	74,750	148,688	74,666	223,353	79,270	302,623
Interest on STD	7,765	6,153	13,918	8,376	22,294	(13,762)	8,532
Amortization	2,133	2,133	4,266	2,133	6,399	26,114	32,513
	83,836	83,036	166,872	70,598	237,469	77,902	315,371
Net Income (Loss)	(11,932)	44,234	32,302	85,860	118,162	(23,536)	94,626
Preferred Dividends	-	-	-	-	-	-	-
Common Dividends	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Transferred to Retained Earnings	$ (11,932)	$ 44,234	$ 32,302	85,860	118,162	(23,536)	94,626

PENNICHUCK EAST UTILITY
BALANCE SHEET
CY 2004

	12/31/2003	3/31/2004	6/30/2004	9/30/2004	12/31/2004
ASSETS					
Plant in Service	$ 19,423,704	$ 19,568,135	$ 19,884,217	$ 20,512,666	$ 21,173,833
Accumulated Depreciation	(3,834,904)	(3,963,282)	(4,046,731)	(4,183,847)	(4,338,486)
	15,588,799	15,604,853	15,837,485	16,328,819	16,835,347
CWIP	49,092	49,092	49,092	63,669	259,635
Total Plant	15,637,891	15,653,945	15,886,577	16,392,488	17,094,982
Cash	-	-	-	-	-
Restricted Cash	-	-	-	-	-
Interco Cash	-	508,168	695,774	1,332,288	-
Interco Receivable	-	(315,454)	(879,535)	(1,359,181)	-
A/R	360,084	323,494	429,936	440,557	365,523
Inventory	(824)	(726)	6,829	7,758	9,467
Prepaids	170	3,346	2,441	1,355	243
Total Current Assets	359,430	518,829	255,445	422,778	375,233
Unamort Debt Expense	11,255	9,122	6,989	12,004	16,399
Abandoned Property	19,357	18,618	17,878	17,139	542,646
Other Assets	536,968	527,164	538,694	536,303	13,930
	567,580	554,904	563,561	565,446	572,975
Total Assets	$ 16,564,902	$ 16,727,678	$ 16,705,584	$ 17,380,712	$ 18,043,190

PENNICHUCK EAST UTILITY
BALANCE SHEET
CY 2004

	12/31/2003	3/31/2004	6/30/2004	9/30/2004	12/31/2004
EQUITY & LIABILITIES					
Preferred Stock	$ -	$ -	$ -	$ -	$ -
Common Stock	100	100	100	100	100
Paid in Capital	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Retained Earnings	1,484,484	1,472,552	1,516,786	1,543,699	1,548,903
	4,484,584	4,472,652	4,516,886	4,543,799	4,549,003
Long Term Debt	-	-	-	-	-
Notes Payable	4,500,000	4,500,000	4,500,000	-	-
LTD: SRF Loan - Green Hills	398,961	462,000	462,000	462,000	328,212
Advances form Parent	955,721	955,721	955,721	955,721	1,153,945
Current Portion LTD	-	-	-	4,500,000	4,517,325
Accounts Payable & Accruals	87,202	164,552	65,526	167,916	(8,182)
Hardship Account	3,388	3,396	3,331	2,832	2,828
Income Taxes	-	-	-	-	-
Customer Deposits	-	-	-	-	-
Intercompany Payable	-	-	-	-	-
	90,590	167,948	68,857	4,670,748	4,511,971
Customer Advances	1,760	-	-	-	-
Deferred Gain on SRF Loans	-	-	-	-	114,540
Other Liability: Derivative	-	-	-	-	50,341
Unamortized ITC	-	-	-	-	-
Deferred Taxes	2,067,217	2,089,717	2,112,217	2,095,419	2,412,539
Other Long Term Liability	-	-	-	98,244	-
CIAC	4,066,069	4,079,640	4,089,903	4,554,780	4,922,639
	6,135,046	6,169,357	6,202,120	6,748,443	7,500,059
Total Equity & Liabilities	$ 16,564,902	$ 16,727,678	$ 16,705,584	$ 17,380,712	$ 18,043,190

Pennichuck East Utility, Inc. Combined Revenues
Quarterly Sales Volume Schedule for
the Five Years from 2000 through 2004

2000

Customer Type	March $	March Cons.	June $	June Cons.	September $	September Cons.	December $	December Cons.	Total $	Total Cons.
Residential	$ 421,914.32	70,045	$ 502,778.30	89,586	$ 552,664.58	101,357	$ 461,574.55	78,565	$ 1,938,931.75	339,553
Commercial	$ 87,669.96	13,764	$ 100,218.34	15,468	$ 93,717.76	13,157	$ 96,286.47	14,214	$ 377,892.53	56,603
Industrial	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-
Municipal	$ 35,427.02	752	$ 43,546.58	819	$ 41,912.13	447	$ 42,704.12	637	$ 163,589.85	2,655
	$ 545,011.30								$ (5,000.00)	Unbilled Revenue
									$ (15,357.05)	Abatements
									$ 2,412.87	Other Adjustments
									$ 2,462,469.95	398,811

2001

Customer Type	March $	March Cons.	June $	June Cons.	September $	September Cons.	December $	December Cons.	Total $	Total Cons.
Residential	$ 427,569.99	69,784	$ 594,629.46	110,176	$ 696,736.39	134,530	$ 531,701.67	93,785	$ 2,250,637.51	408,275
Commercial	$ 95,449.38	14,026	$ 114,070.98	17,576	$ 110,206.68	15,598	$ 115,282.78	16,850	$ 435,009.82	64,050
Industrial	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-
Municipal	$ 43,273.72	764	$ 44,915.46	839	$ 43,258.77	415	$ 45,398.13	944	$ 176,846.08	2,962
		84,574							$ 11,937.00	Unbilled Revenue
									$ (7,851.31)	Abatements
									$ 299.58	Other Adjustments
									$ 2,866,878.68	475,287

2002

Customer Type	March $	March Cons.	June $	June Cons.	September $	September Cons.	December $	December Cons.	Total $	Total Cons.
Residential	$ 476,898.82	80,122	$ 538,387.51	94,815	$ 788,486.24	156,146	$ 561,786.32	99,272	$ 2,365,558.89	430,355
Commercial	$ 92,602.96	12,432	$ 99,113.70	13,402	$ 116,066.69	17,730	$ 133,690.52	21,796	$ 441,473.87	65,360
Industrial	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-
Municipal	$ 45,084.79	869	$ 47,059.42	902	$ 43,995.65	356	$ 48,886.08	1,526	$ 185,025.94	3,653
									$ 81,830.00	Unbilled Revenue
									$ (5,461.29)	Abatements
									$ (308.54)	Other Adjustments
									$ 3,068,118.87	499,368

Pennichuck East Utility, Inc. Combined Revenues
Quarterly Sales Volume Schedule for
the Five Years from 2000 through 2004

2003

Customer Type	March $	March Cons.	June $	June Cons.	September $	September Cons.	December $	December Cons.	Total $	Total Cons.
Residential	$ 504,636.65	85,295	$ 528,777.22	90,768	$ 756,699.82	146,883	$ 542,882.52	94,127	$ 2,332,996.21	417,073
Commercial	$ 109,866.54	15,617	$ 114,641.41	16,851	$ 133,858.07	20,851	$ 130,137.66	19,428	$ 488,503.68	72,747
Industrial	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-
Municipal	$ 51,637.97	1,928	$ 51,277.00	1,628	$ 49,877.38	1,135	$ 51,590.96	1,549	$ 204,383.31	6,240
									$ (20,136.00)	Unbilled Revenue
									$ (15,179.00)	Abatements
									$ (269.29)	Other Adjustments
									$ 2,990,298.91	496,060

2004

Customer Type	March $	March Cons.	June $	June Cons.	September $	September Cons.	December $	December Cons.	Total $	Total Cons.
Residential	$ 507,943.08	85,159	$ 569,948.25	99,737	$ 759,092.70	145,751	$ 566,057.70	97,563	$ 2,403,041.73	428,210
Commercial	$ 117,488.47	16,721	$ 123,194.53	17,937	$ 134,861.30	20,306	$ 121,485.31	17,290	$ 497,029.61	72,254
Industrial	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-
Municipal	$ 49,812.41	1,131	$ 51,551.05	1,267	$ 56,036.47	2,220	$ 57,298.06	2,082	$ 214,697.99	6,700
									$ 12,153.00	Unbilled Revenue
									$ (4,677.84)	Abatements
									$ (31.35)	Other Adjustments
									$ 3,122,213.14	507,164

Projected Capital Budget Program					
Pennichuck East Utility, Inc.					
2005 Through 2008					
(In thousands of dollars)					
					Four Year
	2005	**2006**	**2007**	**2008**	**Total**
Supply & Watershed:					
W&E Well Replacement	205	714	-	-	919
Pelham Tank	780	-	-	-	780
New Wells - Ave. 2 per year	45	90	90	90	315
Various CWS Station upgrades	39	40	40	40	159
Atmospheric Tank Replacements - Ave. 1 per yı	61	55	55	55	226
Well/Booster Pump Replacements	20	25	25	25	95
Supply & Watershed	**1,150**	**924**	**210**	**210**	**2,494**
Treatment Improvements:					
Arsenic Removal System - Avery/Farmstead	254				254
Various Treatment Upgrades/Replacements	24	-	75	75	174
Treatment Improvements	**278**	**-**	**75**	**75**	**428**
Distribution & Storage:					
Distribution Department	123	325	325	325	1,098
Radio Program	22	22	22	22	88
Water Main Upsizing	40	40	40	40	160
One Times Revenue Contribution	80	80	80	80	320
MSDC charges	180	-	-	-	180
Distribution & Storage	**445**	**467**	**467**	**467**	**1,846**
Grand Total	**$ 1,873**	**$ 1,391**	**$ 752**	**$ 752**	**$ 4,768**

Sources and Uses of Funds and Needs for External Capital
Pennichuck East Utility, Inc.
Calendar Year 2004, 2005, and 2006

	Actual 2004	Projected 2005	Projected 2006
OPERATING ACTIVITIES			
Net income	$ 94,625	$ 138,000	$ 350,000
Adjustments:			
Depreciation & amortization	379,241	406,000	500,000
Provision for deferred taxes	354,414	300,000	350,000
Other, net	(184,234)	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	**644,046**	**844,000**	**1,200,000**
INVESTING ACTIVITIES			
Capital expenditures	(972,684)	(1,767,000)	(1,150,000)
Receipt of CIAC	62,548	25,000	50,000
NET CASH (USED) BY INVESTING ACTIVITIES	**(910,136)**	**(1,742,000)**	**(1,100,000)**
FINANCING ACTIVITIES			
Payments on long term debt	(1,922)	(17,325)	(17,325)
Proceeds from long-term borrowings	63,039	1,920,000	-
Payment of dividends	-	-	-
NET CASH (USED) BY FINANCING ACTIVITIES	**61,117**	**1,902,675**	**(17,325)**
ANNUAL EXTERNAL CASH NEEDS	**$ (204,973)**	**$ 1,004,675**	**$ 82,675**

Provision of Sinking Funds
Pennichuck East Utility, Inc.
December 31, 2004

Provided pursuant to NHPUC Rule 1604.01(23)

				Years Ended December 31,						
Description of Security	Holder	Rate	Maturity	2005	2006	2007	2008	2009	2010 and Beyond	Total
Secured bank note	Fleet Bank - NH	6.50%	4/8/05	$ 4,500,000	$ -	$ -	$ -	$ -	$ -	$ 4,500,000
State revolving fund loan	State of NH - DES	3.98%	1/1/25	17,325	17,325	17,325	17,325	17,325	258,913	345,538
				$ 4,517,325	$ 17,325	$ 17,325	$ 17,325	$ 17,325	$ 258,913	$ 4,845,538

Outstanding Intercompany Short-term Indebtedness
Pennichuck East Utility, Inc.
Calendar Year 2004

		Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	13 Month Average	Rate
Intercompany advances		955,721	955,721	955,721	955,721	955,721	955,721	955,721	955,721	955,721	955,721	955,721	955,721	1,153,945		
Intercompany payable		-	85,778	133,030	315,454	494,148	677,547	879,535	1,031,896	1,194,612	1,359,181	1,455,648	1,669,413	-		
Intercompany cash		-	(180,035)	(287,893)	(508,168)	(555,361)	(655,557)	(695,774)	(905,204)	(1,129,600)	(1,332,288)	(1,445,820)	(1,588,027)	-		
		955,721	861,464	800,858	763,007	894,508	977,711	1,139,482	1,082,413	1,020,733	982,614	965,549	1,037,107	1,153,945	971,932	
Pennichuck Corporation:																
Line of Credit Advance	1	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000		3.45%
Line of Credit Advance	2	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000				
Line of Credit Advance	3				500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000			
Line of Credit Advance	4				500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000				
Line of Credit Advance	5							100,000	100,000	100,000	100,000	100,000	100,000			
Line of Credit Advance	6							150,000	150,000	150,000	150,000					
Line of Credit Advance	7								100,000	100,000	100,000	100,000	100,000			
Line of Credit Advance	8								500,000	500,000	500,000	500,000	500,000			
Line of Credit Advance	9								300,000	300,000	300,000					
Line of Credit Advance	10									850,000	850,000					
Line of Credit Advance	11											1,300,000	1,300,000	1,300,000		3.20%
Line of Credit Advance	12												1,500,000	1,500,000		3.65%
		2,000,000	2,000,000	2,000,000	3,000,000	3,000,000	3,000,000	3,250,000	4,150,000	5,000,000	5,000,000	5,000,000	5,000,000	3,800,000		

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

(25) Parent Company Information – 2004, 2003, 2002, 2001, and 2000 Annual Reports to Shareholders contained in this binder. Form 10-K and Form 10-Q previously filed with Commission contained in this binder.

Summary of Proposed 2004 Allocated Costs
Pennichuck Corporation and Subsidiaries
(Dollar amounts in 000's)

Table 1

	Penn Water	Penn East	Pittsfield	Total Regulated	Con Ops	Real Estate	Total
Allocated 2004 Corporate Costs	$ 664	$ 144	$ 24	$ 833	$ 40	$ 37	$ 909
Allocated 2004 Pennichuck Costs	3,699	745	110	4,554	194	141	4,890
Total Allocated 2004 Costs	$ 4,363	$ 889	$ 135	$ 5,387	$ 234	$ 178	$ 5,799

Allocation of Corporate Costs
Calendar Year 2004
(Dollar amounts in 000's)

Table 2

	Penn Water	Penn East	Pittsfield	Total Regulated	Con Ops	Real Estate	Total
2004 Total Revenues	$ 16,008	$ 3,136	$ 474	$ 19,618	$ 1,935	$ 1,574	$ 23,127
% of Total	69.2%	13.6%	2.0%	84.8%	8.4%	6.8%	100.0%
Total Assets	$ 74,098	$ 17,487	$ 3,163	$ 94,748	$ 361	$ 1,214	$ 96,323
	76.9%	18.2%	3.3%	98.4%	0.4%	1.3%	100.0%
Average	73.1%	15.9%	2.7%	91.6%	4.4%	4.0%	100.0%
Total Corporate Allocable Costs for 2004	$ 664	$ 144	$ 24	$ 833	$ 40	$ 37	$ 909

Allocation of Pennichuck Water Works, Inc. Costs
Calendar Year 2004
(Dollar amount in 000's)

Table 3

	Regulated	Con Ops	Real Estate	Total
Revenues (000's)	$ 19,618	$ 1,935	$ 1,574	$ 23,127
	84.8%	8.4%	6.8%	100.0%
Employees (FTE's)	87	2	0	89
	97.8%	2.2%	0.0%	100.0%
Square Footage	13,100	700	500	14,300
	91.6%	4.9%	3.5%	100.0%
Total Assets	$ 94,748	$ 361	$ 1,214	$ 96,323
	98.4%	0.4%	1.3%	100.0%
Average	93.1%	4.0%	2.9%	100.0%
Total 2004 Allocable Costs	$ 4,554	$ 194	$ 141	$ 4,890

Table 3A

	Penn Water	Penn East	Pittsfield	Total
Revenues (000's)	$ 16,008	$ 3,136	$ 474	$ 19,618
	81.6%	16.0%	2.4%	100.0%
Average Rate Base	$ 44,810	$ 9,941	$ 1,522	$ 56,273
	79.6%	17.7%	2.7%	100.0%
Customers	24,576	4,595	642	29,813
	82.4%	15.4%	2.2%	100.0%
Average	81.2%	16.4%	2.4%	100.0%
Total 2004 Regulated Allocable Costs	$ 3,699	$ 745	$ 110	$ 4,554

Comparison of Proposed 2004 vs Historical Allocation Percentages
Pennichuck Corporation and Subidiaries

Table 4

	Penn Water	Penn East	Pittsfield	Regulated	Con Ops	Estate	Total
Preliminary 2004 Allocation % for Corporate Costs	73.1%	15.9%	2.7%	91.6%	4.4%	4.0%	100.0%
Five Year Historical Average % for Corporate Costs	72.9%	13.6%	2.1%	88.5%	6.4%	5.1%	100.0%
Preliminary 2004 Allocation % for Pennichuck Costs	75.6%	15.2%	2.3%	93.1%	4.0%	2.9%	100.0%
Five Year Historical Average % for Pennichuck Costs	76.8%	11.2%	2.2%	90.3%	8.1%	1.7%	100.0%

Q4 2004 PCP allocation (Booked 1/19/05)			
Page 1			
			PCP COSTS
Professional Fees	4b	$	50,786
D&O Insurance	4a	$	333,564
Stockholders Expense	4a	$	488,138
Lease (Jan - April Water St)	4b	$	31,657
Other			
Real Estate / Prop Taxes 4 mos	4b	$	4,509
Flood Insurance 4 mos	4b	$	785
Total PCP allocation		**$**	**909,439.00**

Q4 2004 PWW allocation (Booked 1/19/05)

Page 2

WATER CO.(PWW)		PWW COSTS
Officers Salaries Qtr 1	$	201,985
Officers Salaries Benefits Qtr 1	$	84,230
Officer Salary/Benefit Qtr 1 Reversal	$	(107,508)
Officers Salaries Qtr 2	$	272,647
Officers Salaries Benefits Qtr 2	$	100,387
Officers Salaries Qtr 3	$	199,605
Officers Salaries Benefits Qtr 3	$	96,381
Officer Benefit Qtr 3 Error Fix	$	(13,023)
Officers Salaries Qtr 4	$	202,611
Officers Salaries Benefits Qtr 4	$	84,842
Human Resources	$	69,292
Human Resources Benefits (50%)	$	34,646
Cust Service (FT)	$	275,835
Cust Service (FT) Benefits (50%)	$	137,918
Cust Service (PT)	$	35,404
Cust Service (PT) Benefits (22%)	$	7,789
Accounting	$	298,077
Accounting Benefits (50%)	$	149,039
PWS Marketing Qtr 1	$	28,784
PWS Marketing Benefits Qtr 1	$	12,954
PWS Marketing Qtr 2	$	27,096
PWS Marketing Benefits Qtr 2	$	13,549
PWS Marketing Qtr 3	$	29,239
PWS Marketing Benefits Qtr 3	$	14,621
PWS Marketing Qtr 4	$	28,671
PWS Marketing Benefits Qtr 4	$	14,336
PWS Mktng Part-time	$	11,070
PWS Mktng Part-time Ben (22%)	$	2,435
Information Systems	$	210,754
Information Systems Benefits (50%)	$	105,377
Temp Help Accounting	$	39,728
Temp Help Customer Service	$	25,621
Temp Help Operations	$	20,302
Temp Help Engineering	$	3,837
Recruiter Fees	$	40,175
Computer Dep.	$	28,927
Office Equipments Dep	$	412,788
Leasehold Amort Exp	$	28,300
Vehicle Dep & exp. Sr Mgmt Q1	$	10,131
Vehicle Dep & exp. Sr Mgmt Q2	$	8,579
Vehicle Dep & exp. Sr Mgmt Q3	$	7,455
Vehicle Dep & exp. Sr Mgmt Q4	$	2,993
Vehicle Dep & exp. Marketing Q1	$	1,534
Vehicle Dep & exp. Marketing Q2	$	1,303
Vehicle Dep & exp. Marketing Q3	$	1,275
Vehicle Dep & exp. Marketing Q4	$	2,901
Computer Maintenance	$	119,827
Office Supplies	$	36,351
Courier & Express Mail Expense	$	4,293
Excess Umb/Boiler& Machinery Ins	$	44,136
Office Equipment maintenance	$	12,395
Office Equipment rental	$	45,976
Facilities		
Rental Expense HECOP III	$	130,189
Utilities	$	36,017
Maintenance	$	30,608
	$	**3,724,684**

PENNICHUCK WATER WORKS
WORKORDER MANAGEMENT FEE
(Booked 1/19/05)

For Our Reference Only	2004 Indirect Costs	12/31/04 $ Amount
2950-130	Maint: Meter Dept.	6,487
2950-300	Comm Exp: General	7,102
2921-300-330	Will Street (Off Suply, Gas, Elec, Phone)	38,319
Tax Schedule	Will Street Property Taxes	7,008
Items from Truck Cost Analysis	Misc Transportation Expenses	168,844
Acctng Mgr's Wages Analysis	NonUnion Salaries	1,050,173
Acctng Mgr's Benefits Analysis	NonUnion Benefits	526,723
	Grand Total of Expenses	1,804,656
Amount of indirect expenses which should be allocated:		
BACK OUT JOBBING OVERHEAD		(48,797)
BACK OUT UNION CAPITAL JOBS OVERHEAD		(41,708)
BACK OUT SPECIAL PROJECTS OVERHEAD		(328,949)
BACK OUT INSPECTION FEES		(220,701)
TOTAL MANAGEMENT FEE (W/O O/H)		1,164,501

(A) December 31, 2004 NonUnion Salaries times 3% (estimated overall increase)
(B) NonUnion Salaries adjustment times 50% benefit percentage

(27) Uniform Statistical Report – Not Applicable.

WAIVER OF CERTAIN PROVISIONS OF
PUC 1600 FILING RULES

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