

PHILADELPHIA SUBURBAN CORP
Form S-4/A
January 13, 2003

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As filed with the Securities and Exchange Commission on January 13, 2003

Registration No. 333-101556

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**AMENDMENT NO. 1 TO
FORM S-4**

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

PHILADELPHIA SUBURBAN CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Pennsylvania
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

4941
(PRIMARY STANDARD INDUSTRIAL
CLASSIFICATION CODE NUMBER)

23-1702594
(I.R.S. EMPLOYER
IDENTIFICATION NUMBER)

762 West Lancaster Ave.
Bryn Mawr, Pennsylvania 19010-3489
(610) 525-1400
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,
OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

Roy H. Stahl
Philadelphia Suburban Corporation
Executive Vice President and General Counsel
762 West Lancaster Ave.
Bryn Mawr, Pennsylvania 19010-3489
(610) 525-1400
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF AGENT FOR SERVICE)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective and all other conditions to the merger pursuant to the Agreement and Plan of Merger described herein, have been satisfied or waived.

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If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier registration statement for the same offering.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, \$0.50 par value per share(1)	3,554,255 (2)	N/A	\$67,741,409 (3)	\$6,232.21 (4)

- (1) Includes rights to purchase Series A Junior Participating Preferred Stock of Philadelphia Suburban Corporation. No separate consideration is paid for these rights, and, as a result, the registration fee for these rights is included in the fee for the shares of Common Stock.
- (2) Represents the maximum number of shares of Philadelphia Suburban Corporation common stock, par value \$0.50 per share, estimated to be issuable in the merger pursuant to the Agreement and Plan of Merger dated April 29, 2002 by and among Philadelphia Suburban Corporation, Raleigh Acquisition Corporation and Pennichuck Corporation.
- (3) Pursuant to Rules 457(c) and 457(f)(1) under the Securities Act of 1933, as amended, and solely for the purpose of calculating the registration fee, the proposed maximum aggregate offering price is equal to 2,476,834, the estimated maximum number of shares of Pennichuck Corporation common stock to be exchanged in the merger, multiplied by \$27.35, the average of the high and low sale prices per share of Pennichuck Corporation common stock on The NASDAQ National Market on November 25, 2002.
- (4) Previously paid.

The information in this prospectus is not complete and may be changed. PSC may not sell or accept offers to buy these securities before the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 13, 2003

**Prospectus
of Philadelphia Suburban Corporation and
Proxy Statement
for a
Special Meeting of Shareholders
of Pennichuck Corporation**

To the Shareholders of Pennichuck Corporation:

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Pennichuck Corporation has entered into a merger agreement which provides for the acquisition of Pennichuck by Philadelphia Suburban Corporation, or PSC. We are asking you to vote in favor of this important transaction.

If the merger is completed, Pennichuck shareholders will receive shares of PSC common stock for each share of Pennichuck common stock that they own. Holders of Pennichuck common stock will not know at the time that they vote the number of PSC shares that they will receive in the merger. The number of PSC shares received will depend upon the average closing price of PSC common stock for the 20 consecutive trading days ending the third full trading day before the closing of the merger. Specifically, if the average closing price of PSC common stock:

is not less than \$23.00 but not greater than \$25.00, each share of Pennichuck common stock will be converted into a number of shares of PSC common stock equal to \$33.00 divided by such average closing price rounded to the nearest thousandth;

is less than \$23.00, each share of Pennichuck common stock will be converted into 1.435 shares of PSC common stock; or

is greater than \$25.00, each share of Pennichuck common stock will be converted into 1.320 shares of PSC common stock.

PSC common stock is traded on both the New York Stock Exchange and the Philadelphia Stock Exchange under the symbol "PSC."

We cannot complete the merger unless Pennichuck shareholders approve the merger agreement. **Your vote is very important.** A special meeting of Pennichuck shareholders has been called for the purpose of voting on the merger agreement. Whether or not you plan to attend the special meeting, please take the time to vote on the proposal to approve the merger agreement by completing and mailing the enclosed proxy card to us. **The Pennichuck board of directors by a vote of five to four, recommends that you vote FOR the approval of the merger agreement and believes that the merger with PSC is in the best interest of Pennichuck shareholders.** PSC shareholders are not being asked to vote on the merger agreement because their approval is not required.

The special meeting of Pennichuck shareholders will be held on February , 2003 at the Nashua Marriott, 2200 Southwood Drive, Nashua, New Hampshire at , local time.

We urge you to read this entire proxy statement-prospectus, including all its appendices, and in particular, the detailed information about the merger and those matters discussed in "Risk Factors" beginning on page 16.

Maurice L. Arel
President and Chief
Executive Officer
Pennichuck Corporation

Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved the shares to be issued in the merger and described in this proxy statement prospectus or passed upon the adequacy or accuracy of this proxy statement prospectus. Any representation to the contrary is a criminal offense.

This proxy statement prospectus is dated , 2003 and was mailed to you on or about , 2003.

This document incorporates important business and financial information about PSC and Pennichuck much of which is not delivered with this document. This information is available to you without charge upon written or oral request at the applicable company's address and telephone number listed on page 83. To obtain timely delivery, you must request the information no later than , 2003.

Pennichuck Corporation
4 Water Street
Nashua, New Hampshire 03061
Notice of Special Meeting of Shareholders
To Be Held February , 2003

A special meeting of shareholders of Pennichuck Corporation will be held at the Nashua Marriott, 2200 Southwood Drive, Nashua, New Hampshire on February , 2003 at , local time.

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The special meeting will be held to consider and act upon a proposal to approve the Agreement and Plan of Merger, dated as of April 29, 2002, among Pennichuck, PSC and Raleigh Acquisition Corporation, a wholly-owned subsidiary of PSC. PSC proposes to acquire Pennichuck through a merger of Raleigh Acquisition Corporation with and into Pennichuck in which all of the outstanding shares of Pennichuck common stock will be exchanged for shares of PSC common stock, as more fully described in this proxy statement prospectus. A copy of the merger agreement is included in this proxy statement prospectus as Appendix A.

Approval of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of Pennichuck common stock. The Pennichuck board has fixed the close of business on January 16, 2003 as the record date for the determination of Pennichuck shareholders who will be entitled to notice of and to vote at the special meeting.

Your proxy vote is very important. Whether or not you plan to attend the special meeting, you are requested to vote, date and sign the enclosed proxy and promptly return it in the enclosed postage-paid envelope at your earliest convenience prior to the special meeting. If you attend the special meeting, you may vote either in person or by your proxy. You may revoke your proxy at any time before the vote is taken by delivering to the Secretary of Pennichuck a written revocation or a proxy card with a later date or by voting your shares in person at the special meeting.

The Pennichuck board of directors, by a vote of five to four, recommends that you vote FOR approval of the merger agreement because it believes that the merger with PSC is in the best interest of Pennichuck shareholders.

If the merger agreement is approved by the Pennichuck shareholders at the special meeting and effected by Pennichuck and PSC, any Pennichuck shareholder who does not vote in favor of the merger agreement may elect to exercise his or her or its dissenters' rights as described under "The Merger Dissenters' Rights" on page 52 and in Sections 13.01 through 13.31 of the New Hampshire Business Corporation Act included in this proxy statement prospectus as Appendix B.

By Order of the Board of Directors,

John T. Pendleton, Secretary
Nashua, New Hampshire

, 2003

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Annex I Pennichuck's Annual Report on Form 10-K for the fiscal year ended December 31, 2001	
Annex II Pennichuck's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2002	

ANSWERS TO FREQUENTLY ASKED QUESTIONS ABOUT THE MERGER

Q:

When and where will the special meeting be held?

The special meeting will be held on February , 2003 at , local time, at the Nashua Marriott, 2200 Southwood Drive, Nashua, New Hampshire.

Q:

What will I be voting on at the special meeting?

You will be voting on a merger agreement pursuant to which a subsidiary of PSC will merge with and into Pennichuck, resulting in Pennichuck becoming a wholly owned subsidiary of PSC.

Q:

What will I receive as a result of the merger?

If the merger is completed, in exchange for each of your shares of Pennichuck common stock, you will receive shares of common stock of PSC as consideration in the merger unless you have properly exercised your dissenters' rights under New Hampshire law.

You will not know at the time you vote the number or value of PSC shares that you will receive in the merger.

The number of shares of PSC common stock you will receive will depend upon the average closing price of PSC common stock for the 20 consecutive trading days ending the third full trading day before the closing of the merger. Specifically, if such average closing price of PSC common stock:

is not less than \$23.00 but not greater than \$25.00, each share of Pennichuck common stock will be converted into a number of shares of PSC common stock equal to \$33.00 divided by such average closing price, rounded to the nearest thousandth;

is less than \$23.00, each share of Pennichuck will be converted into 1.435 shares of PSC common stock; or

is greater than \$25.00, each share of Pennichuck will be converted into 1.320 shares of PSC common stock.

No fractional shares of PSC common stock will be issued. Instead, you will receive a check in payment for any fractional shares based on the average closing sale prices of PSC common stock referred to above. Pennichuck shareholders will not receive interest on any cash payments received in the merger.

Pennichuck shareholders may make inquiries as to the estimated exchange ratio at a particular point in time by calling Pennichuck Shareholder Relations at (603) 882-5191.

The shares of PSC common stock issued in connection with the merger will be listed on both the New York Stock Exchange and the Philadelphia Stock Exchange under the ticker symbol "PSC."

Q:

When do you expect the merger to be completed?

We are working toward completing the merger as quickly as possible.

Completion of the merger is conditioned upon, among other things, approval of the merger by the New Hampshire Public Utilities Commission and the expiration of the applicable appeal period.

We hope to complete the merger promptly following the Pennichuck special meeting and receipt of the Public Utilities Commission approval.

Q:

Who can vote at the special meeting?

Holders of shares of Pennichuck common stock at the close of business on January 16, 2003 may vote at the special meeting. You will have one vote at the special meeting for each share of Pennichuck common stock you owned on the record date.

Q:

What vote is required?

Approval of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Pennichuck common stock. On the record date, there were _____ shares of Pennichuck common stock

1

outstanding. Pennichuck directors, executive officers and their affiliates beneficially own an aggregate of 180,654 shares, or approximately 7.3%, of the outstanding shares of Pennichuck common stock entitled to vote at the special meeting.

None of our directors or executive officers has entered into voting agreements or has otherwise committed to voting their shares in any particular way. As of the date of this proxy statement prospectus, none of Pennichuck's directors has advised Pennichuck that he or she intends to oppose the approval of the merger agreement.

Q:

What do I need to do now?

A:

After carefully reading and considering the information contained in this proxy statement prospectus, please mail your completed and signed proxy card in the enclosed return envelope as soon as possible so that your shares may be represented at the special meeting. To assure that your vote is obtained, please give your proxy as instructed on your proxy card even if you currently plan to attend the meeting in person.

Q:

What should I do if I want to change my vote?

A:

You may change your vote or revoke your proxy at any time prior to the vote at the special meeting. To do so, you may send in a later dated, signed proxy card or provide written notice to Pennichuck's Secretary stating that you would like to revoke your proxy. The last recorded vote will be that which is counted at the special meeting. In addition, you may attend the special meeting in person and vote. If you instruct a broker or other record holder to vote your shares, you must follow directions received from your broker or record holder to change your voting instructions.

Q:

My shares are held in my broker's name. Will my broker vote my shares for me?

A:

A broker generally cannot exercise authority to vote on the merger agreement on your behalf unless you have a special arrangement. As a result, your broker will vote your shares only if you provide instructions on how to vote. You should contact your broker and follow the directions provided by your broker regarding how to instruct your broker to vote your shares.

Q:

What will happen if I fail to vote?

A:

The failure to vote has the same effect as a vote against the approval of the merger agreement.

Q:

Do I need to send in my stock certificates at this time?

A:

No. If the merger is completed, Equiserve, L.P., the exchange agent, will send you written instructions explaining how to exchange your share certificates for the appropriate number of shares of PSC common stock.

Q:

Who can help answer my questions?

A:

If you have questions about the merger or if you need additional copies of this document, the enclosed proxy card or the letter of transmittal, you should contact:

Pennichuck Corporation
4 Water Street
Nashua, New Hampshire 03061
Attention: Shareholder Relations
Telephone: (603) 882-5191

or

MacKenzie Partners, Inc.
156 5th Avenue
New York, NY 10010
Telephone: (212) 929-5500 or
(800) 322-2885

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SUMMARY

This summary highlights selected information contained in this proxy statement prospectus and may not contain all the information that is important to you. For a more complete understanding of the proposed merger, you should read carefully this entire proxy statement prospectus as well as the other documents to which we refer, including the Appendices. In addition, for information on Pennichuck's and PSC's filings with the SEC, see "Where You Can Find More Information" on page 82. We have included page references parenthetically to direct you to the more detailed description of each topic presented in this summary.

The Companies (see page 77)

Philadelphia Suburban Corporation
762 West Lancaster Avenue
Bryn Mawr, Pennsylvania 19010
(610) 527-8000

Philadelphia Suburban Corporation was incorporated in 1968 and has been providing water services through its predecessor companies since 1886. PSC is currently the holding company for regulated utilities providing water or wastewater services to approximately 2 million people in Pennsylvania, Ohio, Illinois, New Jersey, Maine and North Carolina. PSC's two primary subsidiaries are:

Pennsylvania Suburban Water Company, a regulated public utility that provides water or wastewater services to approximately 1.3 million residents in the five suburban counties north and west of the City of Philadelphia and in eighteen other counties in Pennsylvania, and

Consumers Water Company, a holding company for several regulated public utility companies that provide water or wastewater services to approximately 700,000 residents in various communities in four states.

PSC's subsidiaries provide wastewater services including wastewater collection, treatment and disposal services to approximately 40,000 primarily residential customers in parts of Pennsylvania, Illinois, New Jersey and North Carolina.

PSC is among the largest investor-owned water utilities in the United States based on number of customers. In addition, PSC provides water and wastewater services to approximately 35,000 people through operating and maintenance contracts with municipal authorities and other parties.

Pennichuck Corporation

4 Water Street
Nashua, New Hampshire 03061
(603) 882-5191

Pennichuck was formed in 1983 following the reorganization of Pennichuck Water Works, which was first established in 1852, into a dedicated water utility. Pennichuck is a holding company with operating subsidiaries engaged primarily in the collection, storage, treatment, distribution and sale of potable water in southern and central New Hampshire.

Three of Pennichuck's subsidiaries Pennichuck Water Works, Inc., Pennichuck East Utility, Inc. and Pittsfield Aqueduct Company, Inc. are engaged in business as regulated public utilities subject to the jurisdiction of the New Hampshire Public Utilities Commission. They collectively serve approximately 26,400 residential and 2,000 commercial and industrial customers.

A fourth Pennichuck subsidiary, The Southwood Corporation, is involved in the development of commercial and residential real estate, while a fifth subsidiary, Pennichuck Water Service Corporation, is engaged in non-regulated, water-related management services and contract operations.

Raleigh Acquisition Corporation

Raleigh Acquisition Corporation is a corporation recently organized and wholly-owned by PSC for the purpose of completing the merger.

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Merger Transaction (see page 25)

The merger agreement provides that PSC will acquire all of the outstanding shares of Pennichuck common stock through the merger of Raleigh Acquisition Corporation, a wholly-owned subsidiary of PSC, with and into Pennichuck. Following the consummation of the merger, Pennichuck will be a wholly-owned subsidiary of PSC.

The merger agreement is attached to this proxy statement prospectus as Appendix A. You are encouraged to read the merger agreement, as it is the legal document that governs the merger.

Ownership of PSC after the Merger

As a result of the merger, it is expected that Pennichuck shareholders will own approximately 4.7% of the outstanding shares of PSC common stock.

Material Federal Income Tax Consequences (see page 68)

Subject to certain qualifications, counsel to Pennichuck is of the opinion that the merger qualifies as a tax-free reorganization for federal income tax purposes.

As a tax-free reorganization, the material tax consequences to Pennichuck shareholders will be:

Pennichuck shareholders will not have taxable gain or loss on the exchange of Pennichuck common stock for PSC common stock in the merger, except with respect to cash received for fractional shares or as a consequence of the exercise of dissenters' rights;

the tax basis of PSC common stock received by Pennichuck shareholders in the merger will be the same as the tax basis of the Pennichuck common stock exchanged in the merger, reduced by the portion of the basis allocable to the fractional shares of PSC common stock received in the merger, and for which cash is received in lieu of such fractional interest of PSC; and

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the holding period of the PSC common stock that a Pennichuck shareholder receives in the merger generally will include the holding period of the Pennichuck common stock exchanged for the PSC common stock.

Dissenters' Rights (see page 52)

Pennichuck shareholders are entitled under New Hampshire law to dissenters' rights in connection with the merger. To exercise dissenters' rights, a Pennichuck shareholder must satisfy the following criteria:

the shareholder must provide written notice to Pennichuck stating his, her or its intention to dissent before the shareholders vote on the merger agreement at the special meeting;

the shareholder must vote against approval of the merger agreement or abstain from voting; and

the shareholder must comply with other procedures described in "The Merger Dissenters' Rights" on page 52.

Dissenters' rights will be forfeited if the requirements are not fully and precisely satisfied. A copy of the relevant sections of New Hampshire law are attached to this proxy statement prospectus as Appendix B.

Executive Officers and Directors of Pennichuck and PSC after the Merger

The directors and executive officers of Pennichuck following the merger will be determined by PSC. It is currently anticipated that a majority of the executive officers of Pennichuck following the merger will be chosen from Pennichuck's current management team.

As of the closing of the merger, PSC will increase the number of directors on its board of directors by one and will appoint Mr. Arel or another person mutually agreed upon by the Pennichuck board and PSC as director. The executive officers and other directors of PSC will not change as a result of the merger.

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Pennichuck's Reasons for the Merger (see page 37)

In reaching its conclusions and recommendation that you vote for the approval of the merger agreement, the Pennichuck board considered a number of factors, including without limitation, the following material factors:

the familiarity of the Pennichuck board with the business, results of operations, properties, financial condition and resources, competitive position and prospects of Pennichuck, including the possible alternatives to the merger;

the increased pace of consolidation in the water company industry;

the relatively high valuation of water company stocks and the valuation of the PSC offer as compared to other offers submitted to Pennichuck and other comparable water company transactions;

the acquisition of Pennichuck in exchange for PSC common stock is intended as a tax-free reorganization for federal income tax purposes;

the intention expressed to the Pennichuck board by Pennichuck's President and Chief Executive Officer, Maurice L. Arel that he intended to retire;

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the financial and other terms and conditions of the merger provided for in the merger agreement;

the favorable impressions the Pennichuck board had regarding PSC's management, business plan and operational track record;

the greater geographic diversity of PSC's customer base as compared to that of Pennichuck; and

the opinion of SG Barr Devlin dated April 28, 2002 to the Pennichuck board to the effect that, as of that date and based upon and subject to the matters described in such opinion, the exchange ratio specified in the merger agreement was fair, from a financial point of view, to the Pennichuck shareholders.

Recommendation to Shareholders

The Pennichuck board recommends, by a vote of five to four, that you vote **FOR** the approval of the merger agreement because it believes that the merger with PSC is in the best interest of Pennichuck shareholders. The Pennichuck directors who voted in favor of the merger agreement are Maurice Arel, Charles Clough, Robert Keller, John Kreick and Hannah McCarthy. Mr. Arel is Pennichuck's President and Chief Executive Officer.

The Pennichuck directors who voted against the merger agreement are Joseph Bellavance, Stephen Densberger, Martha O'Neill and Charles Staab. Mr. Densberger is Pennichuck's Executive Vice President, and Mr. Staab is its Treasurer and Chief Financial Officer and one of its Vice Presidents.

Opinion of SG Barr Devlin (see page 42)

In deciding to approve the transaction, the Pennichuck board, among the numerous factors discussed below in "The Merger Pennichuck's Reasons for the Merger; Recommendation of the Pennichuck Board," considered the oral opinion of SG Barr Devlin to the effect that, as of April 25, 2002, and based upon and subject to the considerations in the opinion, the merger consideration to be received by Pennichuck's shareholders pursuant to the merger agreement was fair from a financial point of view to the Pennichuck shareholders. That oral opinion was confirmed in writing by SG Barr Devlin as of April 28, 2002, and the written opinion is attached as Appendix C to this proxy statement prospectus. We encourage you to read the entire opinion.

Risk Factors (see page 16)

You are encouraged to consider the risk factors described elsewhere in this proxy statement prospectus in deciding whether to vote in favor of the proposal to approve the merger agreement.

Interests of Related Persons in the Merger (see page 49)

Each of Pennichuck's executive officers are parties to severance agreements and other arrangements that provide them with interests in the merger that are different from, or in addition to, the interests of Pennichuck shareholders as a whole. More specifically, these executive officers have severance and change of control agreements which will provide them with severance payments if their employment is terminated under certain circumstances following the merger.

In addition, the executive officers may be entitled to a retention bonus if they remain employed with Pennichuck on the date of closing. As Maurice L. Arel, Pennichuck's President and Chief Executive Officer, intends to retire on the earlier of closing of the merger or June 30, 2003, he does not expect to receive any severance or change of control payment, but may be entitled to a retention bonus upon the closing of the merger.

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The Pennichuck board was aware of these interests and considered them, among other factors, in approving the merger agreement and the merger.

Accounting Treatment (see page 52)

PSC expects the merger to be treated as a purchase for accounting and financial reporting purposes, which means that PSC will allocate the purchase price among Pennichuck's consolidated assets and liabilities based on their estimated fair values. Any excess purchase price over the fair values will be allocated to goodwill in PSC's consolidated financial statements.

New Hampshire Public Utilities Commission Approval (see page 51)

Pennichuck's public utility subsidiaries are regulated by the New Hampshire Public Utilities Commission. The New Hampshire Public Utilities Commission has been asked to determine that the merger will not have an adverse effect on rates, terms, service, or operation of the utilities and is lawful, proper, and in the public interest.

The schedule approved by the Commission currently provides that the Commission will act on the application by February 28, 2003. The Commission's staff gave testimony in December 2002 that it believes that the merger met the requisite regulatory standards for approval. Various municipalities and other parties that have intervened in the Commission's proceedings regarding the merger have publicly indicated that they intend to request that the Commission extend the schedule for issuing its decision on the Pennichuck application.

Generally, the merger may not be completed unless and until there is a final, non-appealable order of the New Hampshire Public Utilities Commission approving the merger, meaning the order is no longer subject to modification or reversal as a result of reconsideration by the Commission or an appeal. Because an intervener may file a motion for a rehearing and a notice of appeal with New Hampshire Supreme Court, it is possible that an intervener could prevent the Commission's order from becoming a final order by March 31, 2003. Pennichuck or PSC may unilaterally terminate the merger agreement if the merger is not completed on or before March 31, 2003.

Hart-Scott-Rodino Premerger Notification (see page 52)

PSC and Pennichuck filed their respective Hart-Scott-Rodino Premerger Notification and Report Forms on June 26, 2002 under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Early termination of the Hart-Scott-Rodino waiting period was granted on July 8, 2002. However, if the merger is not completed by July 8, 2003, the parties will need to make another Premerger Notification filing with the Federal Trade Commission and the Department of Justice and again wait for the expiration of the waiting period or early termination of that period by the Federal Trade Commission before completing the merger.

Conditions to the Closing of the Merger (see page 64)

Each of PSC's and Pennichuck's obligations to close the merger are subject to several conditions, including, among others:

Pennichuck's shareholders approving the merger agreement;

the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Act;

the final, non-appealable approval of the New Hampshire Public Utilities Commission;

all consents required by each party shall have been obtained and shall impose no condition that could reasonably be expected to have a material adverse affect on Pennichuck;

the absence of restraining orders, injunctions or other orders restraining or prohibiting the merger;

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the absence of any law or order making the merger illegal;

the absence of any judgment or order of a governmental authority, administrative agency or court limiting PSC's rights in the ownership of Pennichuck;

the representations and warranties of the other party that are qualified by materiality shall be true and correct and the representations and warranties not qualified by materiality shall be true and correct in all material respects and each party shall have performed its obligations under the merger agreement in all material respects; and

the shares of PSC common stock to be issued in connection with the merger shall have been authorized for listing on the New York Stock Exchange.

In addition, Pennichuck's obligation to close the merger is subject to:

Pennichuck's receipt from its counsel of an opinion that the merger will be treated as a tax-free reorganization for federal income tax purposes; and

PSC having elected Mr. Arel or another person mutually agreed upon by PSC and the Pennichuck board to the PSC board of directors.

Termination of Merger Agreement (see page 66)

Pennichuck and PSC may agree at any time prior to the time the articles of merger are filed with the Secretary of State of the State of New Hampshire to terminate the merger agreement, even if the Pennichuck shareholders have approved the merger agreement.

Also, PSC or Pennichuck may terminate the merger agreement if:

a court or governmental authority issues a non-appealable final order, decree or ruling prohibiting the merger;

the merger is not completed by March 31, 2003; or

the other party materially breaches any representation, warranty, covenant or other agreement in the merger agreement and such breach cannot be cured or the breaching party is not using its reasonable best efforts to cure the breach.

PSC may terminate the merger agreement if:

Pennichuck's board fails to recommend the merger or withdraws or adversely modifies its approval or recommendation of the merger; or

Pennichuck's board recommends, approves or endorses an acquisition proposal from a third party.

Pennichuck may terminate the merger agreement if:

Pennichuck's board, following receipt of an unsolicited acquisition proposal from a third party, determines in good faith that the merger is no longer in the best interests of Pennichuck's shareholders and that modification or withdrawal of its recommendation concerning the merger

agreement is required to satisfy its fiduciary duties to Pennichuck's shareholders; and

Pennichuck provides PSC with the required notice under the merger agreement and otherwise complies with the terms of the merger agreement as it concerns third party acquisition proposals; and

Pennichuck has authorized, subject to compliance with the terms of the merger agreement, the execution of an agreement with a third party providing for a transaction that in the Pennichuck board's good faith judgment constitutes a superior proposal to the merger.

Termination Fee (see page 67)

Pennichuck must pay PSC a termination fee of \$2,500,000 if:

the merger agreement is terminated by PSC because Pennichuck's board fails to recommend the merger, withdraws its approval or recommendation of the merger, or approves, endorses or recommends an acquisition proposal from another party, so long as (1) an acquisition proposal by a third party has been made prior to the board's action or omission and (2) Pennichuck enters into an agreement with that party or a tender offer is commenced within six months following termination; or

the merger agreement is terminated by Pennichuck following the authorization by Pennichuck of the execution of a definitive acquisition agreement with a third party which in the good faith opinion of Pennichuck's board constitutes a superior proposal.

All other fees and expenses incurred in conjunction with the merger will be paid by the party incurring the expenses, whether the merger is consummated or not.

Forward-Looking Statements in this Proxy Statement Prospectus

The statements contained in this proxy statement prospectus and in the documents delivered with and incorporated by reference into this proxy statement prospectus include certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of each of PSC and Pennichuck. Forward-looking statements are identifiable by the fact that they do not relate strictly to historical or current facts. They often include words such as "will permit", "will afford", "believes", "expects", "may", "should", "projected", "contemplates" or "anticipates". Forward-looking statements include information concerning the prospects for the consummation of the merger and the business of Pennichuck and PSC during the period prior to and following the effective time of the merger, set forth, among other places, under "Answers to Frequently Asked Questions About the Merger," "Summary," "The Merger Background of the Merger," "The Merger Pennichuck's Reasons for the Merger," and "The Merger Opinion of Pennichuck's Financial Advisor." The forward-looking statements relating to the merger may include, without limitation:

statements relating to cost savings and accretion to reported earnings that are expected to be realized from the merger;

the impact on revenues of the merger; and

the restructuring charges expected to be incurred in connection with the merger.

These forward-looking statements involve certain risks and uncertainties. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements or which may affect the ability of the companies to consummate the merger include, among others:

seasonal fluctuations in the demand for water services;

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the effect of drought conditions on customers' water usage or PSC's or Pennichuck's ability to serve current and future customers;

contamination of PSC's or Pennichuck's water supply;

changes in the market price of PSC common stock;

delay in the timing of the closing of the proposed merger;

the refusal of governing regulatory agencies to grant adequate rate increases to cover investments in utility plant and expenses;

changes in federal, state or local regulations imposing limitations and restrictions on the way PSC and Pennichuck do business;

the timely receipt of necessary shareholder and other consents and approvals to complete the merger, which could be delayed for a variety of reasons related or not related to the merger itself;

the fulfillment of all of the closing conditions specified in the merger agreement;

the receipt of an unsolicited acquisition proposal; and

the imposition by the New Hampshire Public Utility Commission of requirements or conditions on Pennichuck or its operating subsidiaries in connection with the Commission's approval of the merger.

In evaluating the merger, you should carefully consider the discussion of risks and uncertainties in the section titled "Risk Factors" beginning on page 16. You are cautioned not to place undue reliance on the forward-looking statements contained in this proxy statement prospectus, which reflect the views of PSC's or Pennichuck's management only as of the date of this proxy statement prospectus. Neither PSC nor Pennichuck undertakes any obligation to update these statements or publicly release the results of any revisions to the forward-looking statements that they may make to reflect events or circumstances after the date of this proxy statement prospectus.

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HISTORICAL FINANCIAL DATA

Selected Consolidated Historical Financial Data of Pennichuck

The following table sets forth selected financial data of Pennichuck as of and for each of the last five fiscal years ended December 31, 2001 and for the nine-month periods ended September 30, 2002 and 2001. The financial data for each of the nine-month periods are derived from unaudited financial statements and, in the opinion of Pennichuck's management, include all adjustments necessary for the fair presentation of such data. This data should be read in conjunction with Pennichuck's financial statements, including the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" that are contained in reports filed with the SEC and incorporated by reference into this proxy statement prospectus. See Pennichuck's Annual Report on Form 10-K for the year ended December 31, 2001 and Quarterly Report on Form 10-Q for the quarters ended March 31, 2002, June 30, 2002 and September 30, 2002, which are incorporated by reference into this proxy statement prospectus. See also "Where You Can Find More Information" on page 82 for information on obtaining Pennichuck's other SEC filings.

As of or for the Nine Months Ended September 30		As of or for the Year Ended December 31,				
2002	2001	2001	2000	1999	1998	1997(1)

(dollar amounts in thousands, except per share data)

Consolidated Income Statement Data:

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	As of or for the Nine Months Ended September 30			As of or for the Year Ended December 31,				
Operating revenues	\$ 18,455	\$ 15,637	\$ 22,754	\$ 23,671	\$ 17,809	\$ 17,395	\$ 12,056	
Net income	1,298	2,389	3,612	3,683	2,616	2,106	1,207	

Per Common Share Data (2):

Diluted net income per common share	\$.54	\$ 1.01	\$ 1.50	\$ 1.55	\$ 1.12	\$ 1.19	\$ 0.75	
Cash dividends declared per common share	.585	0.563	0.76	0.73	0.69	0.59	0.51	
Book value per share of common stock	12.64	12.44	12.81	12.17	11.27	10.88	9.05	
Basic net income per common share	.54	1.01	1.52	1.56	1.12	1.21	0.76	

Balance Sheet Data:

Total assets	\$ 88,008	\$ 85,072	\$ 87,841	\$ 82,880	\$ 75,581	\$ 70,838	\$ 57,240	
Capitalization:								
Long-Term debt, including Current Portion	\$ 27,436	\$ 27,553	\$ 27,420	\$ 27,237	\$ 28,266	\$ 28,185	\$ 26,678	
Stockholders' equity	30,239	29,626	30,595	28,596	26,257	24,811	14,589	
Total capitalization	\$ 57,675	\$ 57,179	\$ 58,015	\$ 55,833	\$ 54,523	\$ 52,996	\$ 41,267	

- (1) 1997 data as originally reported has been restated to reflect the acquisition of Pittsfield Aqueduct Company in January 1998 accounted for as a pooling of interests.
- (2) All per share data reflects the 3 for 2 stock split in September 1998 and the 4 for 3 stock split in December 2001.

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Selected Consolidated Historical Financial Data of PSC

The following table sets forth selected financial data of PSC as of and for each of the last five fiscal years ended December 31, 2001 and for the nine-month periods ended September 30, 2002 and 2001. The financial data for each of the nine-month periods are derived from unaudited financial statements and, in the opinion of PSC's management, include all adjustments necessary for the fair presentation of such data. This data should be read in conjunction with PSC's financial statements, including the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" that are contained in reports filed with the SEC and incorporated by reference into this proxy statement prospectus. See "Where You Can Find More Information" on page 82 for information on where you can obtain PSC's SEC filings.

	As of or for the Nine Months Ended September 30,		As of or for the Year Ended December 31,				
	2002	2001	2001	2000	1999	1998(1)	1997(1)

(dollar amounts in thousands, except per share data)

Consolidated Income Statement Data:

Operating revenues	\$ 240,202	\$ 232,159	\$ 307,280	\$ 274,014	\$ 256,546	\$ 250,718	\$ 235,162
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As of or for the
Nine Months Ended September
30,

As of or for the Year Ended December 31,

Income from continuing operations	48,547(5)	47,876(2)	60,111	52,890	36,384	45,015	35,210
Net income available to common stock	48,508(5)	47,796(2)	60,005	52,784	36,275	44,820	32,278

Per Common Share Data(3):

Diluted income per common share:

Income from continuing operations	\$ 0.70(5)	\$ 0.70(2)	0.87	\$ 0.81	\$ 0.56	\$ 0.70	0.58
Net income	0.70(5)	0.70(2)	0.87	0.81	0.56	0.70	0.53
Cash dividends declared per common share	0.5375	0.504	0.504	0.47	0.45	0.32(4)	0.50
Book value per share of common stock	7.15	6.66	6.90	6.38	5.69	5.46	4.93
Basic income per common share:							
Income from continuing operations	0.71(5)	0.71(2)	0.88	0.82	0.57	0.71	0.58
Net income	0.71(5)	0.71(2)	0.88	0.82	0.57	0.71	0.54

Balance Sheet Data:

Total assets	\$ 1,657,094	\$ 1,509,612	\$ 1,560,339	\$ 1,413,723	\$ 1,280,805	\$ 1,156,733	\$ 1,083,162
Capitalization:							
Long-Term debt, including Current Portion	\$ 589,515	517,527	\$ 531,455	\$ 472,712	\$ 425,946	\$ 377,355	407,526
Preferred stock with mandatory redemption							4,214
Stockholders' equity	494,779	456,207	473,833	432,347	368,901	353,088	306,816
Total capitalization	\$ 1,084,294	\$ 973,734	\$ 1,005,288	\$ 905,059	\$ 794,847	\$ 730,443	\$ 718,556

- (1) 1998 and 1997 data as originally reported has been restated to reflect the acquisition of Consumers Water Company in March 1999 accounted for as a pooling of interests.
- (2) Results include a gain on sale of land of \$2,942 and a gain on sale of marketable securities of \$155 (aggregate after tax impact of \$1,858 or \$0.03 per share).
- (3) All per share data reflects the 5-for-4 stock splits in December 2001 and December 2000, and the 4-for-3 stock split in January 1998.
- (4) The cash dividend of \$0.10, paid in March 1998, was declared in December 1997.
- (5) Results include a gain on sale of land of \$900 and a gain on sale of marketable securities of \$1,179 (aggregate after-tax impact of \$1,248 or \$0.02 per share).

Selected Historical and Pro Forma Comparative Per Share Data

The following table shows unaudited comparative per share data for PSC and Pennichuck, using the purchase method of accounting. The information should be read in conjunction with the consolidated historical financial statements and related notes of PSC and Pennichuck that are presented or otherwise incorporated by reference in this proxy statement prospectus. See "Where You Can Find More Information" on page 82 for details on documents incorporated by reference into this proxy statement prospectus.

The pro forma data is presented for comparative purposes only and is not necessarily indicative of the combined financial position or results of operations which would have been realized had the merger been completed during the periods or as of the dates for which the pro forma data is presented.

	Historical		Pro Forma	
	PSC	Pennichuck	Combined Company	Pennichuck Equivalent(1)
Per Common Share:				
Basic Net Income Per Share				
Nine Months Ended September 30, 2002	\$ 0.71	\$ 0.54	\$ 0.69(2)	\$ 0.99
Year Ended December 31, 2001	0.88	1.52	0.89(2)	1.28
Diluted Net Income Per Share				
Nine Months Ended September 30, 2002	0.70	0.54	0.68(2)	0.98
Year Ended December 31, 2001	0.87	1.50	0.88(2)	1.26
Cash Dividend Declared on Common Stock				
Nine Months Ended September 30, 2002	0.5375	.585	0.5375(3)	.077
Year Ended December 31, 2001	0.504	0.76	0.504(3)	0.72
Book Value				
As of September 30, 2002	7.15	12.64	7.82(2)	11.22
As of December 31, 2001	6.90	12.81	7.59(2)	10.88

- (1) The Pennichuck and PSC unaudited pro forma combined income and book value per common share are based on Pennichuck's shareholders receiving 1.435 shares of PSC common stock for each share of Pennichuck common stock held. That exchange ratio corresponds to a PSC per share price of [\$20.70,] which was the PSC Average Closing Price as of [January 9,] 2003, the most recent practicable trading day prior to the filing of this proxy statement prospectus. The determination of the PSC Average Closing Price is described in detail on page 13 under "Market Price and Dividend Information Market Value of Merger Consideration. Pennichuck equivalent pro forma amounts are computed by multiplying the pro forma combined company amounts by the exchange ratio of 1.435.
- (2) Combined company amounts are based on an exchange ratio of 1.435. The exchange ratio is subject to adjustment, in accordance with the merger agreement.
- (3) Amounts represent PSC's historical dividends per common share.

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PSC common stock trades on both the New York Stock Exchange and the Philadelphia Stock Exchange under the symbol "PSC". Pennichuck common stock trades on the Nasdaq Stock Market under the symbol "PNNW".

Market Price Information Recent Quotes

The following table lists trading information for PSC common stock on the New York Stock Exchange and Pennichuck common stock on the Nasdaq Stock Market on April 26, 2002 and [January 9], 2003. April 26, 2002 was the last full trading day before the public announcement of the signing of the merger agreement. [January 9], 2003 was the last full trading day prior to the printing of this proxy statement prospectus.

	PSC			Pennichuck		
	High	Low	Close	High	Low	Close
April 26, 2002	\$ 24.02	\$ 23.63	\$ 23.80	\$ 27.00	\$ 26.33	\$ 27.00
[January 9], 2003	\$ [20.78]	\$ [20.26]	\$ [20.35]	\$ [28.30]	\$ [27.50]	\$ [28.24]

Market Price Information Historical Figures

The table below lists the high and low quarterly bid prices for the common stock of PSC and the common stock of Pennichuck as reported in published financial sources for the periods indicated.

	PSC(1)		Pennichuck(2)	
	High	Low	High	Low
Fiscal Year 2003				
First quarter (through January 9, 2003)	\$ 20.95	\$ 20.10	\$ 28.94	\$ 26.51
Fiscal Year 2002				
Fourth quarter	\$ 21.87	\$ 19.30	\$ 29.84	\$ 27.59
Third quarter	\$ 20.30	\$ 16.02	\$ 28.98	\$ 23.50
Second quarter	\$ 25.00	\$ 18.49	\$ 32.39	\$ 25.10
First quarter	\$ 24.61	\$ 21.10	\$ 27.50	\$ 24.33
Fiscal Year 2001				
Fourth quarter	\$ 24.64	\$ 20.80	\$ 26.81	\$ 19.19
Third quarter	\$ 23.28	\$ 18.66	\$ 24.17	\$ 20.85
Second quarter	\$ 20.40	\$ 16.60	\$ 25.61	\$ 19.02
First quarter	\$ 19.39	\$ 15.65	\$ 21.76	\$ 18.51
Fiscal Year 2000				
Fourth quarter	\$ 19.95	\$ 13.56	\$ 21.38	\$ 17.81
Third quarter	\$ 15.56	\$ 12.80	\$ 21.00	\$ 18.00
Second quarter	\$ 15.96	\$ 11.60	\$ 22.69	\$ 16.50
First quarter	\$ 14.08	\$ 10.56	\$ 24.75	\$ 15.66

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Dividend Information

The table below lists the cash dividends paid per share of common stock of both PSC and Pennichuck for the periods indicated.

	PSC(1)		Pennichuck(2)	
	High	Low	High	Low
Fiscal Year 2002				
Fourth quarter	\$ 0.140	\$ 0.195		

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	<u>PSC(1)</u>	<u>Pennichuck(2)</u>
Third quarter	\$ 0.1325	\$ 0.195(3)
Second quarter	\$ 0.1325	\$ 0.195
First quarter	\$ 0.1325	\$ 0.195
Fiscal Year 2001		
Fourth quarter	\$ 0.13248	\$ 0.195
Third quarter	\$ 0.124	\$ 0.188
Second quarter	\$ 0.124	\$ 0.188
First quarter	\$ 0.124	\$ 0.188
Fiscal Year 2000		
Fourth quarter	\$ 0.124	\$ 0.188
Third quarter	\$ 0.1152	\$ 0.18
Second quarter	\$ 0.1152	\$ 0.18
First quarter	\$ 0.1152	\$ 0.18

- (1) All per share data for PSC reflects a five-for-four stock split in December 2001 and December 2000.
- (2) All per share data for Pennichuck reflects a four-for-three stock split in December 2001.
- (3) In order to synchronize its dividend cycle with that of PSC, Pennichuck paid its third quarter dividend on September 3, 2002 instead of August 15, 2002. Since the period between dividends was extended from the normal 90 days to 105 days, the Board of Directors voted to increase the dividend by \$0.033 per share to account for the additional 15 days. Therefore, the total dividend payment on September 3 was \$0.228 per share.

As of [January 9, 2003,] the record number of PSC shareholders was approximately [21,500] and the record number of Pennichuck shareholders was approximately [714.]

Following the merger, PSC common stock will continue to be listed on both the New York Stock Exchange and the Philadelphia Stock Exchange, and there will be no further market for Pennichuck common stock.

Market Value of Merger Consideration

The number of shares of PSC common stock that Pennichuck shareholders will receive in the merger for each share of Pennichuck common stock will depend on the average closing price of PSC common stock for the 20 consecutive full trading days ending the third full trading day before the closing of the merger (the "PSC Average Closing Price"). References in this proxy statement prospectus to the PSC Average Closing Price as of a particular date mean the PSC Average Closing Price calculated as if the merger was completed on that date.

The following table provides the PSC Average Closing Price if the merger had been completed as of April 26, 2002 and as of [January 9], 2003 and the equivalent per share price of Pennichuck common stock giving effect to the merger on those dates. April 26, 2002 was the last business day preceding the

announcement of the merger, and [January 9], 2003 was the last practicable date prior to the mailing of this proxy statement prospectus.

<u>Market value per share</u>	<u>Average Closing Sales Price</u>	<u>Pro Forma Equivalent Per Share</u>
-------------------------------	------------------------------------	---------------------------------------

April 26, 2002	\$	23.80	\$	33.01
[January 9], 2003	\$	[20.70]	\$	[29.70]

The pro forma equivalent market values of Pennichuck common stock shown in the preceding table have been calculated assuming an exchange ratio of 1.387 as of April 26, 2002 and an exchange ratio of [1.435] as of [January 9], 2003. Those exchange ratios were determined using the PSC Average Closing Price of \$23.80 as of April 26, 2002 and the PSC Average Closing Price of \$[20.70] as of [January 9], 2003, which would have been the PSC Average Closing Price had the merger been completed as of those dates. The pro forma equivalent per share values have been calculated by multiplying the applicable exchange ratio by the closing price for PSC common stock on those dates.

The actual equivalent market value of Pennichuck common stock in the merger will likely be different. If the actual PSC Average Closing Price as of the completion of the merger is greater than the PSC Average Closing Price as of [January 9], 2003, the pro forma equivalent value of the Pennichuck common stock would be greater than the pro forma equivalent value shown in the preceding table. Conversely, if the actual PSC Average Closing Price as of the completion of the merger is less than the PSC Average Closing Price as of [January 9], 2003, the pro forma equivalent value of the Pennichuck common stock would be less than the pro forma equivalent value shown in the preceding table.

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RISK FACTORS

In considering whether to vote in favor of the proposal relating to the merger, you should consider all of the information included in this document and its annexes and appendices and all of the information included in the documents we have incorporated by reference. In particular, you should consider the following risk factors.

Risks Relating to the Merger

Because the value of the consideration to be received in the merger is subject to changes based on fluctuations in the market price of PSC common stock, we cannot tell you today or on the date of the special meeting the value you will receive for each share of Pennichuck common stock converted into PSC common stock.

The value of the merger consideration Pennichuck shareholders will receive in the merger may be adversely affected by a decrease in the market price of PSC common stock. This is partly because the number of shares of PSC common stock to be issued to Pennichuck shareholders will be determined based upon the average daily closing sales prices of PSC common stock for the 20 consecutive full trading days, ending at the close of trading on the third full trading day before we complete the merger. Such average daily closing sales price is sometimes referred to in this proxy statement prospectus as the "PSC Average Closing Price." In addition, the average closing sales price of PSC common stock may vary from the market price on any given day, including the date of this proxy statement prospectus, the date of the Pennichuck special meeting and the effective time of the merger.

If the PSC Average Closing Price is between \$23.00 and \$25.00, Pennichuck shareholders will receive \$33.00 in value for each share of Pennichuck common stock that they own. If the PSC Average Closing Price is less than \$23.00, Pennichuck shareholders will receive less than \$33.00 in value, and if the PSC Average Closing Price is greater than \$25.00, Pennichuck shareholders will receive greater than \$33.00 in value.

We encourage Pennichuck shareholders to obtain current market prices for PSC common stock, which is listed on the New York Stock Exchange under the symbol "PSC," as the market price may fluctuate due to various factors. However, because the value of the merger consideration to be received in the merger depends upon the closing prices of PSC stock over a period of time ending just prior to completion of the merger, Pennichuck shareholders will not know at the time they vote the value of the merger consideration that they will receive. In addition, the PSC Average Closing Price may vary from the market price on any given day, including the date of this proxy statement prospectus, the date of the Pennichuck special meeting and the effective time of the merger. For the twelve month period ending [January 9], 2003, the daily closing market price for PSC common stock has been between \$[16.02] and \$[25.00].

Pennichuck has incurred significant expenses in connection with the merger that Pennichuck must pay even if the merger is not completed.

Pennichuck has incurred various expenses in reviewing and evaluating strategic alternatives to the merger, in negotiating the merger agreement with PSC and in preparing this proxy statement prospectus and other regulatory filings related to the merger. These expenses include fees that have been paid or are payable to Pennichuck's financial advisor, legal counsel and accountants aggregating approximately \$3,266,000. With the exception of \$1,600,000 payable to Pennichuck's financial advisor that is contingent upon the completion of the merger, Pennichuck is obligated to pay these fees even if the merger is not completed.

Some of the conditions to closing may result in a delay or prevent completion of the merger, which may adversely affect the value of both companies' securities.

Completion of the merger is conditioned upon our receipt of certain governmental consents and approvals, including approval from the New Hampshire Public Utilities Commission. Failure to obtain these consents will prevent consummation of the merger. Even if the approvals are obtained, the effort involved may delay consummation of the merger. Governmental authorities may also impose conditions in connection with the merger that may adversely affect PSC's or Pennichuck's operations after the merger. Further, if the conditions imposed by the New Hampshire Public Utilities Commission in connection with its approval of the merger could reasonably be expected to have a material adverse effect on Pennichuck, PSC would not be required to complete the merger. Furthermore, any of these events could have a negative impact on the value of PSC or Pennichuck securities.

Pennichuck's obligation to pay a termination fee may deter competing proposals.

Pennichuck may terminate the merger agreement if it receives and accepts an acquisition proposal from a third party which is superior to the proposed merger, but Pennichuck must then pay PSC a termination fee of \$2.5 million. The obligation to pay the termination fee may deter third parties from making competing bids for Pennichuck.

Risks Related to Pennichuck's Business

One or more municipalities may seek to acquire Pennichuck's operating assets through an eminent domain proceeding, whether or not the merger is completed.

On November 26, 2002, the Board of Aldermen of the City of Nashua adopted a formal resolution to hold a City-wide referendum on January 14, 2003 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. Nashua residents provide approximately 88% of the revenue generated by Pennichuck Water Works, Inc. and approximately 68% of the revenue generated by Pennichuck's utility subsidiaries as a whole. Separately, several other communities whose residents are served by one or more of Pennichuck's subsidiaries have expressed preliminary interest in forming a regional water authority for the purposes of acquiring and operating a substantial portion of Pennichuck's operating assets. In the November 26 resolution, the Nashua Board of Aldermen also expressed support in principle for the formation of a regional water authority.

Any acquisition of Pennichuck assets by eminent domain would be highly uncertain and likely would involve protracted proceedings before the New Hampshire Public Utilities Commission, especially if Pennichuck objects to the acquisition. Given the highly integrated nature of Pennichuck's system and the significant interests of other communities in Pennichuck's service area, the Commission would 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 PUC determination regarding (1) the portion of the Pennichuck assets that could or should be taken by eminent domain, (2) whether a taking of Pennichuck's assets by eminent domain would be in the public interest, and (3) the amount of compensation that would have to be paid to Pennichuck if assets were acquired by eminent domain. Therefore, as of the special meeting, there could be no assurance that any municipality or regional water authority would, or would not, in fact acquire Pennichuck's assets and, if so, what the price to be paid for those assets would be.

Under existing law, Nashua, for example, would be able to acquire assets of Pennichuck Water Works through an eminent domain proceeding, whether or not Pennichuck completes the merger with PSC, only if, among other things,

the proposed acquisition is approved by a majority of Nashua residents voting on the referendum (which vote is scheduled to be held on January 14, 2003);

the New Hampshire Public Utilities Commission determines (1) that the acquisition of Pennichuck's assets by the City is in the public interest, (2) the amount that Nashua must pay Pennichuck to compensate it for the taking and (3) whether or not assets and operations outside the City must also be taken;

the final terms of the acquisition are ratified by a vote of two-thirds of Nashua Board of Alderman; and

the City is able to issue bonds or find some other source of financing to fund the purchase.

The potential for a regional water authority to acquire Pennichuck assets is likely subject to several additional significant conditions:

legislation must be enacted in New Hampshire creating such an authority and giving it the power both to acquire Pennichuck's assets by eminent domain and to issue bonds to fund the acquisition of those assets;

there must be an agreement among the municipalities participating in the regional water authority regarding the control of the authority; and

a municipality's participation in the regional water authority must be approved first by its town council or other governing body and then, in some cases, by a vote of a majority of the town's voters.

As of the date of this proxy statement prospectus, aside from the November 26 resolution of the Nashua Board of Aldermen, the only definitive action taken by any town to participate in a regional water authority were votes of the Town Councils of Bedford and Londonderry, New Hampshire to enter into a joint agreement with other municipalities to establish a regional water district in anticipation of acquiring the assets or the stock of Pennichuck.

The initiation by either the City of Nashua and/or a regional water authority of an eminent domain proceeding for the taking of Pennichuck's assets prior to the closing of the merger could have a material adverse effect on Pennichuck and on Pennichuck's ability to complete the merger with PSC. The existence of an eminent domain proceeding might cause PSC to decline to proceed with the merger under the terms of the merger agreement, even though the obligations of Pennichuck and PSC to complete the merger are not expressly conditioned on the absence of such a proceeding. PSC has informed Pennichuck that if, for example, the residents of the City of Nashua approve the referendum on January 14, 2003, PSC may assert, depending on all the relevant facts and circumstances, that the City's eminent domain proceeding constitutes a material adverse change in Pennichuck's business and therefore that PSC has the right not to proceed with the merger under the terms of the merger agreement. (Nothing contained in this proxy statement prospectus shall constitute an admission by either Pennichuck or PSC that the merger agreement does or does not entitle PSC to make such an assertion.)

Even if PSC were to choose not to make, or if Pennichuck were to contest successfully, an assertion that one or more eminent domain initiatives constitute a material adverse change in Pennichuck's business, it is possible that PSC might seek not to proceed with merger if the merger is not completed on or before March 31, 2003. The merger agreement provides that either Pennichuck or PSC may unilaterally terminate the merger agreement if the merger is not completed on or before March 31, 2003 (provided that the company terminating the agreement has not breached the merger agreement or failed to fulfill its obligations under the merger agreement and such breach or failure caused or resulted in the merger not being completed). As discussed elsewhere in this proxy statement prospectus, Pennichuck and PSC expect that interveners in the New Hampshire Public Utility Commission proceeding will prevent us from receiving a final PUC order and closing the merger on or before March 31, 2003. See "The Merger Utilities Regulation" (page 51). PSC has informed Pennichuck that if such a scenario occurs, PSC may, depending on all the relevant facts and circumstances, exercise its right to terminate the merger agreement. (Nothing contained in this proxy statement prospectus shall constitute an admission by either Pennichuck or PSC that either party

would or would not have the right to terminate the merger agreement if the merger is not completed on or before March 31, 2003.)

If the City of Nashua or a regional water authority were successful in acquiring any of Pennichuck's water works system in an eminent domain proceeding, or under a threat of an eminent domain proceeding, there can be no assurance that the value ultimately received by Pennichuck shareholders as a result of such an acquisition would be equal to or greater than the value that would be received by Pennichuck shareholders in the proposed merger. In particular, as discussed elsewhere in this proxy statement prospectus, the Pennichuck board believes that if the merger is not completed and the City of Nashua (or a regional water authority) acquires the Pennichuck water works system, there would likely be significant adverse income tax consequences for Pennichuck and its shareholders (either directly or indirectly). The Pennichuck board also believes that those adverse tax consequences would significantly reduce the value that Pennichuck shareholders ultimately would receive

for their stake in Pennichuck if the merger is not completed and the City of Nashua (or a regional water authority) acquires the Pennichuck water works system. See "The Merger Subsequent Developments" on page 39. 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.

Pennichuck and PSC believe that if the City of Nashua or a regional water authority were to acquire all of or a substantial portion of Pennichuck's water works system after the completion of the merger, such an acquisition could have a negative effect on, but depending upon the facts and circumstances at the time, most likely would not have a material adverse effect on, PSC. Pennichuck and PSC expect that Pennichuck's assets will not constitute a material portion of PSC's total assets and that the revenue and income produced by those assets will not be material to PSC's total revenue or income. The existence of an eminent domain proceeding, however, might increase Pennichuck's expenses, delay or prevent the realization of operational synergies with PSC, adversely affect Pennichuck's future prospects or result in the loss of one or more key employees and, as a consequence, cause the profitability of Pennichuck's business to be less than PSC's expectations.

If the merger with PSC is not completed, the City of Nashua or a regional water authority might not proceed to acquire any of Pennichuck's water works system by eminent domain. We note that the announcement of the proposed merger appears to have prompted the initiation of the eminent domain proceedings by the City of Nashua and the current discussions regarding the formation of a regional water authority. Therefore, it is possible that if the merger were not completed, the City of Nashua and the other municipalities that would comprise a regional water authority may decide not to continue to pursue the acquisition of any of Pennichuck's water works system by eminent domain. In that event, Pennichuck would remain an independent company owned by its shareholders, though it is possible that the eminent domain proceedings that have occurred or will occur in connection with the proposed merger with PSC thereafter could adversely affect Pennichuck's future prospects and result in the loss of one or more key employees.

Risks Related to PSC's Business

PSC's business requires significant capital expenditures and the rates PSC charges its customers are subject to regulation. If PSC is unable to obtain government approval of its requests for rate increases, or if approved rate increases are untimely or inadequate to cover its investments, PSC's profitability may suffer.

The water utility business is capital intensive. On an annual basis, PSC spends significant sums for additions to or replacement of property, plant and equipment. PSC's ability to maintain and meet its financial objectives is dependent upon the rates PSC charges its customers. These rates are subject to approval by the public utility commissions of the states in which PSC operates. PSC files rate increase requests, from time to time, to recover its investments in utility plant and expenses. Once a rate increase petition is filed with a public utility commission, the ensuing administrative and hearing process may be lengthy and costly. The timing of PSC's rate increase requests are therefore partially dependent upon the estimated cost of the administrative process in relation to the investments and

expenses that PSC hopes to recover through the rate increase to the extent approved. PSC can provide no assurances that any future rate increase request will be approved by the appropriate state public utility commission; and, if approved, PSC cannot guarantee that these rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which it initially sought the rate increase.

PSC's operating costs could be significantly increased in order to comply with new or stricter regulatory standards imposed by federal and state environmental agencies.

PSC's water and wastewater services are governed by various federal and state environmental protection and health and safety laws and regulations, including the federal Safe Drinking Water Act, the Clean Water Act and similar state laws, and state and federal regulations issued under these laws by the United States Environmental Protection Agency and state environmental regulatory agencies. These laws and regulations establish, among other things, criteria and standards for drinking water and for discharges into the waters of the United States and states. Pursuant to these laws, PSC is required to obtain various environmental permits from environmental regulatory agencies for its operations. PSC cannot assure you that it has been or will be at all times in total compliance with these laws, regulations and permits. If PSC violates or fails to comply with these laws, regulations or permits, PSC could be fined or otherwise sanctioned by regulators. Environmental laws are complex and change frequently. These laws, and the enforcement thereof, have tended to become more stringent over time. While PSC has budgeted for future capital and operating expenditures to maintain compliance with them and its permits, it is possible that new or stricter standards could be imposed that will raise PSC's operating costs. Although these costs may be recovered in the form of higher rates, there can be no assurance that the various state public utility commissions that govern PSC's business would approve rate increases to enable PSC to recover such costs. In summary, PSC cannot assure you that its costs of complying with, or discharging liability under, current and future environmental and health and safety laws will not adversely affect its business, results of operations or financial condition.

PSC's business is subject to seasonal fluctuations, which could affect demand for its water service and its revenues.

Demand for its water during the warmer months is generally greater than during cooler months due primarily to additional requirements for water in connection with cooling systems, swimming pools, irrigation systems and other outside water use. Throughout the year, and particularly during typically warmer months, demand will vary with temperature and rainfall levels. In the event that temperatures during the typically warmer months are cooler than expected, or if there is more rainfall than expected, the demand for PSC's water may decrease and adversely affect its revenues.

Drought conditions may impact PSC's ability to serve its current and future customers, and may impact PSC's customers' use of its water, which may adversely affect PSC's financial condition and results of operations.

PSC depends on an adequate water supply to meet the present and future demands of its customers. Drought conditions could interfere with PSC's sources of water supply and could adversely affect PSC's ability to supply water in sufficient quantities to its existing and future customers. An interruption in PSC's water supply could have a material adverse effect on its financial condition and results of operations. Moreover, governmental restrictions on water usage during drought conditions may result in a decreased demand for PSC's water, even if PSC's water reserves are sufficient to serve its customers during these drought conditions, which may adversely affect PSC's revenues and earnings.

An important element of PSC's growth strategy is the acquisition of water and wastewater systems. Any future acquisitions PSC decides to undertake may involve risks.

An important element of PSC's growth strategy is the acquisition and integration of water and wastewater systems in order to broaden its current, and move into new, service areas. PSC will not be

able to acquire other businesses if it cannot identify suitable acquisition opportunities or reach mutually agreeable terms with acquisition candidates. Further, PSC may be required to integrate any businesses it acquires with its existing operations. The negotiation of potential acquisitions as well as the integration of acquired businesses could require PSC to incur significant costs and cause diversion of its management's time and resources. Future acquisitions by PSC could result in:

dilutive issuances of PSC equity securities;

incurrence of debt and contingent liabilities;

fluctuations in quarterly results; and

other acquisition-related expenses.

Some or all of these items could have a material adverse effect on PSC's business and PSC's ability to finance its business. The businesses PSC acquires in the future may not achieve sales and profitability that justify PSC's investment and any difficulties it encounters in the integration process could interfere with PSC's operations and reduce its operating margins. In addition, as consolidation becomes more prevalent in the water and wastewater industries, the prices for suitable acquisition candidates may increase to unacceptable levels and limit PSC's ability to grow through acquisitions.

Contamination to PSC's water supply may result in disruption in its services and litigation which could adversely affect PSC's business, operating results and financial condition.

PSC's water supplies are subject to contamination, including contamination from the development of naturally-occurring compounds and chemicals in groundwater systems, and pollution resulting from man-made sources. In the event that PSC's water supply is contaminated, PSC may have to interrupt the use of that water supply until it is able to substitute the flow of water from an uncontaminated water source. In addition, PSC may incur significant costs in order to treat the contaminated source through expansion of its current treatment facilities, or development of new treatment methods. If PSC is unable to substitute water supply from an uncontaminated water source, or to adequately treat the contaminated water source in a cost-effective manner, there may be an adverse effect on its revenues, operating results and financial

condition. The costs PSC incurs to decontaminate a water source or an underground water system could be significant and could adversely affect its business, operating results and financial condition.

In addition to the potential pollution of PSC's water supply as described above, in the wake of the September 11, 2001 terrorist attacks and the ensuing threats to the nation's health and security, PSC has taken steps to increase security measures at its facilities and heighten employee awareness of threats to its water supply. PSC has also tightened its security measures regarding the delivery and handling of certain chemicals used in its business. PSC has and will continue to bear increased costs for security precautions to protect its facilities, operations and supplies. These costs may be significant. PSC is currently not aware of any specific threats to its facilities, operations or supplies; however, it is possible that PSC would not be in a position to control the outcome of terrorist events should they occur.

PSC could also be held liable for consequences arising out of human exposure to hazardous substances in its water supplies or other environmental damage. For example, private plaintiffs have the right to bring personal injury or other toxic tort claims arising from the presence of hazardous substances in PSC's drinking water supplies. PSC's insurance policies may not be sufficient to cover the costs of these claims.

PSC depends significantly on the services of the members of its senior management team, and the departure of any of those persons could cause its operating results to suffer.

PSC's success depends significantly on the continued individual and collective contributions of its senior management team. The loss of the services of any member of PSC's senior management or the inability to hire and retain experienced management personnel could harm its operating results.

PENNICHUCK SPECIAL MEETING

This proxy statement prospectus is being furnished to you in connection with the solicitation of proxies by the Pennichuck board of directors for use at the Pennichuck special meeting. At the Pennichuck special meeting, you will be asked to consider and vote upon a proposal to approve the merger agreement under which shares of PSC common stock will be exchanged for all of the outstanding shares of Pennichuck common stock, all as summarized in this proxy statement prospectus and as more fully described in the merger agreement.

Date, Time and Place

The special meeting of Pennichuck shareholders will be held on February , 2003 at the Nashua Marriott, 2200 Southwood Drive, New Hampshire at , local time.

Pennichuck may adjourn or postpone the special meeting to another date and/or place for proper purposes.

Record Date and Voting Rights

The Pennichuck board has fixed January 16, 2003 as the record date for the determination of shareholders entitled to notice of and to vote at the Pennichuck special meeting. Only the holders of Pennichuck common stock on the record date are entitled to vote at the special meeting. As of the record date, there were shares of Pennichuck common stock outstanding held by approximately holders of record. Each holder of record of shares of Pennichuck common stock on the record date is entitled to cast one vote per share, in person or by proxy, at the Pennichuck special meeting.

As of [January 9], 2003, Pennichuck directors and executive officers had the right to vote 180,654 shares of Pennichuck common stock, or approximately 7.3% of the shares of Pennichuck common stock outstanding on that date. See "Beneficial Shareholders of Pennichuck" on page 79.

Shareholder Vote Required

Under New Hampshire law, the approval of the merger agreement requires the affirmative vote of the majority of the outstanding shares of Pennichuck common stock. Abstentions will have the same effect as a vote against the proposal.

Votes that are broker non-votes will have the same effect as a vote against the proposal. Broker non-votes occur when brokers or nominees holding stock in "street name" indicate on proxies that they have not received specific instructions from the beneficial owners of such shares on

how to vote the shares on a particular matter.

Quorum and Proxies

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Pennichuck common stock entitled to vote is necessary to constitute a quorum at the Pennichuck special meeting. Under New Hampshire law, not less than a quorum of shareholders as of the record date must be present, in person or by proxy, to conduct business at the special meeting. Shareholders at the meeting in person or voting by proxy or abstaining from voting by proxy on any issue will be counted as present for purposes of constituting a quorum. Abstentions will have the same effect as votes against the proposal.

All shares which are entitled to vote and are represented at the Pennichuck special meeting by properly executed proxies received before or at the Pennichuck special meeting, and not revoked, will be voted at the Pennichuck special meeting in accordance with the instructions indicated on the

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proxies. **If no instructions are indicated, such proxies will be voted for approval of the merger agreement.**

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted. Proxies may be revoked or superseded by any of the following actions:

filing a written notice of revocation bearing a later date than the proxy with the Secretary of Pennichuck (John T. Pendleton) at or before the vote at the Pennichuck special meeting;

duly executing a later dated proxy relating to the same shares and delivering it to the Secretary of Pennichuck (John T. Pendleton) before the vote at the Pennichuck special meeting;

if your shares are held by a broker, following the directions received from your broker as to how to change your voting instructions; or

if your shares are held by you directly and not through a broker or other nominee, attending the Pennichuck special meeting and voting in person.

Pennichuck shareholders should note, however, that merely attending the special meeting in person without providing notice of revocation or casting a subsequent vote will not alone constitute a revocation of a proxy.

The obligations of Pennichuck and PSC to consummate the merger are subject to, among other things, the condition that Pennichuck's shareholders approve the merger agreement at the special meeting. See "The Merger Agreement Conditions to Completion of the Merger" on page 64.

You should not forward any certificate representing shares of Pennichuck common stock with your proxy. If the merger is consummated, certificates should be delivered in accordance with instructions set forth in a letter of transmittal which will be sent to you promptly after the effective time of the merger.

Shareholders who require assistance in changing or revoking a proxy should contact MacKenzie Partners, Inc. at 156 5th Avenue, New York, NY 10010, (212) 929-5500.

Pennichuck will pay all expenses of this solicitation, including the cost of mailing this proxy statement prospectus to Pennichuck shareholders. Brokers, custodians and fiduciaries in whose name common stock is held will be requested to forward proxy soliciting material to the beneficial owners of such stock, and Pennichuck will reimburse them for this service. Directors, officers and employees of Pennichuck may also solicit proxies in person or by telephone, telegram, facsimile transmission or other means of communication. Pennichuck will not pay these individuals for their solicitation activity but will reimburse them for their reasonable out-of-pocket expenses. Pennichuck has also retained the services of MacKenzie Partners, Inc. as proxy solicitor to aid in the solicitation of proxies at an estimated cost of \$18,000.

Recommendation of Pennichuck Board

The Pennichuck board, by a vote of five to four, has approved the merger agreement and recommends that you vote FOR the proposal to approve the merger agreement because it believes that the merger with PSC is in the best interest of the shareholders.

The Pennichuck directors who voted in favor of the merger agreement are Maurice Arel, Charles Clough, Robert Keller, John Kreick and Hannah McCarthy. Mr. Arel is Pennichuck's President and Chief Executive Officer. The Pennichuck directors who voted against the merger agreement are Joseph Bellavance, Stephen Densberger, Martha O'Neill and Charles Staab. Mr. Densberger is Pennichuck's Executive Vice President, and Mr. Staab is its Treasurer and Chief Financial Officer and one of its Vice Presidents. See "Merger Transaction Interests of Certain Persons in the Merger; Differing Interests"

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on page 49 for a discussion of interests of Pennichuck's directors and executive officers in the merger that may be different from your own.

Dissenters' Rights

If the merger is completed, holders of Pennichuck common stock who previously elected to dissent from the approval of the merger agreement may be entitled to have their shares appraised and purchased in accordance with New Hampshire law.

In order for a Pennichuck shareholder to exercise dissenters' rights, a written notice of that shareholder's intention to exercise his or her or its dissenters' rights must be given by that shareholder and received by Pennichuck before the vote is taken at the special meeting to approve the merger agreement, and that shareholder must vote against the approval of the merger agreement or abstain from voting, and otherwise fully and completely comply with those procedures required by New Hampshire law, as more fully described in "The Merger Dissenters' Rights" on page 52. Failure to send written notice and to follow the other procedures required by New Hampshire law will constitute a waiver of the shareholder's dissenters' rights. See Appendix B to this proxy statement prospectus for a copy of the applicable sections of New Hampshire law relating to dissenters' rights and the procedures that must be followed to perfect dissenters' rights.

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THE MERGER

We believe that this summary together with the sections of this proxy statement prospectus under the caption "The Merger Agreement" describe all material terms of the merger and the merger agreement. We recommend, however, that you read carefully the complete text of the merger agreement and other information that may be important to you. The merger agreement is attached to this proxy statement prospectus as Appendix A and is incorporated by reference into this proxy statement prospectus.

General

The merger agreement provides, on the terms and subject to the conditions set forth therein:

For the merger of Raleigh Acquisition Corporation with and into Pennichuck, with Pennichuck surviving the merger as a wholly-owned subsidiary of PSC.

That each share of Pennichuck common stock outstanding immediately prior to the effective time of the merger will be converted into the right to receive shares of PSC common stock, except that shares owned by PSC or any of its subsidiaries or by Pennichuck or any of its subsidiaries will be canceled, and shares held by shareholders, if any, who properly exercise their dissenters' rights under New Hampshire law will be entitled to the rights detailed under "The Merger Dissenters' Rights" on page 52.

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The effective time of the merger will be at the time the articles of merger are filed with the Secretary of State of the State of New Hampshire (or at a later time as specified in the articles of merger), which is expected to occur after the last of the conditions precedent to the merger set forth in the merger agreement has been satisfied or waived. See "The Merger Agreement Conditions to Completion of the Merger" on page 64.

The number of shares of PSC common stock to be received by Pennichuck's shareholders shall be equal to the exchange ratio multiplied by the number of shares of Pennichuck common stock owned by the shareholders. The exchange ratio will be determined as follows:

if the PSC Average Closing Price is not less than \$23.00 but not greater than \$25.00, the exchange ratio will be equal to the quotient, rounded to the nearest thousandth, of \$33.00 divided by the PSC Average Closing Price;

if the PSC Average Closing Price is less than \$23.00, the exchange ratio will be 1.435; or

if the PSC Average Closing Price is greater than \$25.00, the exchange ratio will be 1.320.

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The following chart illustrates the relationship between the PSC Average Closing Price and the exchange ratio.

Value Given to Holders of Pennichuck Common Stock at Various PSC Average Closing Prices

The PSC Average Closing Price would have been \$[20.70] if the merger had been completed as of [January 9], 2003, the last practicable date prior to the mailing of this proxy statement prospectus, which would have resulted in an exchange ratio of [1.435]. From April 29, 2002, the

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date on which Pennichuck and PSC announced the merger agreement, to [January 9], 2003, the PSC Average Closing Price has ranged between \$[18.02] and \$[24.24]. We encourage Pennichuck shareholders to obtain current market prices for PSC common stock. See "Market Price and Dividend Information" on page 13.

Pennichuck shareholders should bear in mind, however, that at the time they vote on the merger they will not know the value of the merger consideration that they will receive in the merger. The final exchange ratio and therefore the number of shares of PSC common stock that a Pennichuck shareholder will receive in the merger in exchange for each Pennichuck share will depend upon the PSC Average Closing Price just prior to completion of the merger. In addition, the value of the merger consideration as of the effective date of the merger will be equal to that final exchange ratio multiplied by the market price for PSC common stock on that date, which may be different than the PSC Average Closing Price.

Background of the Merger

Establishment and Role of Strategic Planning Committee. The Pennichuck board's decision in April 2002 to approve the merger agreement marked the culmination of a process that the board

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formally initiated in October 2001, when it voted unanimously to establish a Strategic Planning Committee, composed of Robert Keller, the Committee's Chairman, Charles Clough and Dr. John Kreick, each of whom is a non-employee director. The Committee's purpose was to coordinate a comprehensive evaluation of the principal strategic alternatives available to Pennichuck. The Pennichuck board's decision to establish the Committee to assess Pennichuck's long-term strategy was influenced primarily by

the ongoing reduction in the amount of low cost land owned by Pennichuck that is suitable for real estate development,

Pennichuck's relatively limited expansion of its non-regulated sources of income, including contracts to operate municipal water systems (also known as contract operations),

the increased pace of consolidation in the water company industry, including their pending acquisition by Aquarion, the United States subsidiary of Kelda Group plc, of substantially all of the New England business of the American Water Works Company, including its operations in New Hampshire and Massachusetts, that was announced on August 30, 2001,

the relatively high valuation of water company stocks at that time, and

the intention of Pennichuck's President and Chief Executive Officer, Maurice Arel, to retire, as he had recently disclosed to the Pennichuck board.

The Committee members received presentations from SG Barr Devlin and four other firms in connection with its selection of a financial advisor that would be suitable to assist the Pennichuck board. In November 2001, the Company retained SG Barr Devlin as Pennichuck's financial advisor. A unit of the international banking organization Société Generale, SG Barr Devlin specializes in investment banking engagements for regulated utility companies.

Preliminary Review of Strategic Alternatives and Pennichuck's Valuation. On December 12, 2001 the Committee, Pennichuck's other non-employee directors and Mr. Arel met with SG Barr Devlin to discuss SG Barr Devlin's analysis of and recommendations regarding the three principal strategic choices available to Pennichuck, namely

continuing to pursue management's business plan, as presented in a ten-year financial plan recently prepared by Pennichuck management, which plan did not contemplate a change in control of Pennichuck (the "Stand-alone Strategy"),

seeking to complete significant acquisitions to diversify Pennichuck's geographic base and achieve greater financial and operating scale, and

soliciting proposals to be acquired by another water company.

SG Barr Devlin also reviewed with the Pennichuck directors SG Barr Devlin's methodology for its estimate of the range of valuations of Pennichuck that could reasonably be expected under the Stand-alone Strategy (which would not include a change of control premium) and an estimate of a range of values that could reasonably be expected in an acquisition by another water company, as summarized below and described in more detail elsewhere in this proxy statement prospectus. See "The Merger Opinion of Pennichuck's Financial Advisor" on page 42. SG Barr Devlin separately valued Pennichuck's water utility and contract operations segments, which are its core businesses, and its real estate development ventures. In explaining this bifurcated approach, SG Barr Devlin advised the Pennichuck directors that it was unlikely that a strategic acquirer would be willing to value Pennichuck's real estate development as highly as its ongoing water business and observed that Pennichuck derived a much higher percentage of its earnings from real estate development activities compared to other water companies.

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Stand-alone Strategy. In its presentation to the directors, SG Barr Devlin noted that Pennichuck's net income growth during the past several years had benefited significantly from the net income produced by its real estate development ventures. During that time, however, Pennichuck developed much of its inventory of low cost land suitable for real estate development. SG Barr Devlin observed that, as a result of the reduction in the amount of its low cost real estate and based upon management's projections, Pennichuck should expect to experience during the next several years a decline in the rate of its earnings growth, primarily attributable to a significant reduction in the growth of income produced by its real estate development ventures.

SG Barr Devlin also observed that management's projections showed a significant increase in net income through 2005 from contract operations. The Committee members and SG Barr Devlin, however, questioned Pennichuck's ability to meet those projections based in part upon its relatively limited track record in winning and performing contract operations. SG Barr Devlin also noted that Pennichuck, like other water companies, would need to make relatively large capital expenditures during the next several years in order to comply with additional requirements under the Safe Drinking Water Act that would soon be applicable to Pennichuck. SG Barr Devlin also expressed its view that Pennichuck's ability to make such capital expenditures may be constrained by its limited debt capacity.

Strategy for Growth Through Acquisitions. SG Barr Devlin advised the Pennichuck directors that Pennichuck's ability to grow through acquisitions would be adversely affected by:

the limited availability of target companies of appropriate size and price;

the fact that most acquisition candidates are geographically remote from Pennichuck's New Hampshire base;

the relatively illiquid trading market for Pennichuck common stock would make a stock-for-stock acquisition unattractive to potential targets; and

the fact that the full use of Pennichuck's debt capacity to support its existing operations would restrict its ability to pursue any sizable cash transaction.

Strategy for a Combination with a Larger, Strategic Buyer. SG Barr Devlin concluded that the most advantageous strategic alternative for Pennichuck shareholders would likely be an acquisition of Pennichuck by a larger water company based in the United States or Europe. SG Barr Devlin reviewed with the Pennichuck directors the universe of potential acquirers and the range of values that the Pennichuck board could reasonably expect Pennichuck shareholders to receive in such an acquisition based upon the methodology summarized above and described in more detail under "The Merger Opinion of Pennichuck's Financial Advisor" on page 42.

SG Barr Devlin also discussed with the Pennichuck directors the implications of the recently announced acquisitions of several large United States-based water companies, including the pending acquisitions of Utilities, Inc. by Nuon, based in the Netherlands, and the American Water Works Company by RWE Aktiengesellschaft, headquartered in Germany. SG Barr Devlin stated that RWE's acquisition of American Water Works (the largest United States-based water company) could reasonably be expected to prompt other European water companies to accelerate plans for acquisitions in the United States. SG Barr Devlin also advised the Pennichuck directors that if the pace of consolidation in the water industry continued, Pennichuck's strategic value could be expected to diminish in the future both because the number of potential strategic acquirers would decline and because Pennichuck's operations would not be large enough to have a meaningful impact on many of the remaining

acquirers.

The Committee members unanimously concurred with SG Barr Devlin's assessment of the strategic alternatives available to Pennichuck and recommended that the Pennichuck board authorize the

exploration of whether or not, and on what terms, one or more larger water companies would be interested in acquiring Pennichuck.

Pennichuck Board's Decision to Solicit Confidential Indications of Interest from Potential Acquirers. The Pennichuck board met on December 14, 2001 to consider the SG Barr Devlin analyses and the Committee's recommendation. The Pennichuck board considered a variety of factors, including the recent market price of Pennichuck common stock, the assumptions in the SG Barr Devlin presentation, and the manner in which SG Barr Devlin would obtain indications of interest from potential acquirers. The Pennichuck board also considered comments raised by some directors questioning SG Barr Devlin's assertion that Pennichuck's ability to make significant capital expenditures may be constrained by its limited debt capacity. The Committee members in particular noted that SG Barr Devlin's assessment of the challenges that Pennichuck would confront under the Stand-alone Strategy was consistent with the issues that the Committee members and other directors had previously discussed. The Committee members stressed the importance of the Pennichuck board obtaining actual indications of interest from likely acquirers in order for the board to make an informed judgment about the strategic direction Pennichuck should pursue. By a vote of five to four, with Joseph Bellavance, Charles Clough, Robert Keller, John Kreick and Hannah McCarthy in favor, and Maurice Arel, Stephen Densberger, Martha O'Neill and Charles Staab opposed, the Pennichuck board authorized SG Barr Devlin to determine through confidential discussions the range of values that the most likely potential acquirers would be willing to pay to acquire Pennichuck. Those directors voting against the resolution believed that devoting time and resources to exploring acquisition opportunities would detract from Pennichuck's pursuit of the Stand-alone Strategy, which they believed was in the best interest of Pennichuck's shareholders.

Solicitation of Preliminary Indications of Interest and Final Offers. In January 2002, the Committee directed SG Barr Devlin to solicit indications of interest confidentially from seven of the ten most likely acquirers that SG Barr Devlin had identified and discussed with the Committee and other board members. Five of those parties, including PSC, expressed an interest in considering the acquisition of Pennichuck, entered into confidentiality agreements with Pennichuck, and received a confidential offering memorandum which SG Barr Devlin had prepared with the assistance of Pennichuck management and which included Pennichuck's confidential ten-year financial projections. On February 22, 2002, PSC and three other potential acquirers submitted written, non-binding preliminary indications of their interest in acquiring Pennichuck.

Each preliminary indication described the structure of the proposed transaction and the preliminary range of values that the prospective acquirer might expect to pay to Pennichuck shareholders. Three of the potential acquirers proposed to acquire Pennichuck for cash. PSC proposed to acquire Pennichuck in exchange for PSC stock. Three of the preliminary indications, including the one that PSC submitted, valued Pennichuck within a range that was substantially consistent with the estimated acquisition valuation range that SG Barr Devlin described at its December 2001 presentation. The fourth preliminary indication, submitted by a United States subsidiary of a foreign company, indicated a value for Pennichuck that was substantially greater than any other proposal and the estimated acquisition valuation range, but was contingent, however, on approval by the bidder's foreign parent company.

On February 25, 2002, the Committee met with SG Barr Devlin and legal counsel to review the four preliminary indications. Also present at that meeting were Pennichuck's other directors. The Pennichuck directors compared the valuation range in each preliminary indication with both the valuation ranges in the other preliminary indications and SG Barr Devlin's estimated acquisition valuation range for Pennichuck. The Pennichuck directors also considered the relative advantages and disadvantages of an acquisition of Pennichuck for a fixed, all cash price compared to an acquisition of Pennichuck in exchange for the acquirer's stock that would qualify as a tax-free reorganization for federal income tax purposes. The Pennichuck directors also considered the potential for the valuation

of Pennichuck in a stock-for-stock acquisition to fluctuate prior to the closing based upon the changes in the market value of the acquirer's stock.

The Committee authorized each of the four bidders to continue with the process by attending formal presentations by Pennichuck management, conducting an in-depth, off-site due diligence review of Pennichuck's business and financial condition, and submitting final offers. In March 2002, PSC and two other bidders separately attended a management presentation, participated in a site tour of Pennichuck's facilities, and began their due diligence review. The bidder that had submitted the preliminary indication with the greatest valuation of Pennichuck informed SG Barr Devlin that, after consultation with its parent company, it had decided to withdraw its indication of interest and not continue

with the process prior to engaging in any further review of Pennichuck.

Consideration of Formal Offers. Pennichuck received formal offers from three bidders on April 15, 2002. PSC proposed to acquire Pennichuck in exchange for PSC stock in a transaction in which each Pennichuck share would be converted into 1.381 shares of PSC stock. The other two bidders proposed to acquire Pennichuck solely for cash. The PSC proposal valued Pennichuck at approximately \$33 per share based upon the market price of PSC stock on April 15, 2002. One of the all cash proposals valued Pennichuck at \$29.70 per share. Pennichuck's valuation in the other all cash proposal was less than the bidder's preliminary indications of interest and was substantially less than both of the other offers. PSC's proposal stated that it was willing to permit Pennichuck to designate an individual to become a PSC director upon the completion of the acquisition. PSC also submitted an alternative offer to acquire all Pennichuck's assets other than its real estate development ventures in exchange for a lower fixed exchange ratio of 1.213 shares of PSC stock for each Pennichuck share. That ratio had a value of approximately \$29 per share based on the market price of PSC stock on April 15, 2002.

At a Pennichuck board meeting on April 17, 2002, SG Barr Devlin and legal counsel made detailed presentations regarding the three acquisition proposals and related matters. SG Barr Devlin's presentation included a review of mechanisms commonly known as "collars" sometimes used in acquisitions in which the shareholders of the company to be acquired are to receive stock of the acquiring company, noting that a collar is intended to provide a greater degree of certainty as to the value of the acquiring company's stock that the shareholders of the acquired company will receive as of the closing of the acquisition. At the request of the Pennichuck board, SG Barr Devlin also expressed a view as to why the third offer was so much lower than the other two, noting, among other things, that the bidder was unwilling to value Pennichuck's real estate development ventures as highly as the other bidders. The Pennichuck directors also considered the alternate offer submitted by PSC, but it was the consensus of the Pennichuck directors that the complexity and uncertainty inherent in that alternative made it clearly less favorable to the Pennichuck shareholders than each of the other strategic choices available to the Pennichuck board.

Following SG Barr Devlin's presentation, legal counsel reviewed the material non-economic terms of the PSC offer and the leading cash offer, comparing each against the other and against the form of merger agreement that Pennichuck had provided to the bidders in connection with the bidding process. In particular, counsel summarized the circumstances under which the Pennichuck board would be permitted to consider a competing proposal to acquire Pennichuck and the events that would result in Pennichuck being obligated to pay a termination fee under the merger agreement. See "The Merger Agreement Termination of the Merger Agreement" on page 66.

Also on April 17, the non-employee Pennichuck directors and Mr. Arel discussed the advisability of implementing a set of retention bonus arrangements that would provide a financial incentive for Pennichuck's executive officers to remain Pennichuck employees at least until the closing of the acquisition. The Compensation Committee subsequently instructed SG Barr Devlin to propose to the bidders a retention bonus arrangement for Pennichuck's executive officers substantially consistent with

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the final retention bonus parameters described in "The Merger Interests of Certain Persons in the Merger; Differing Interests" on page 49.

Improved Offers from Two Leading Bidders. At the conclusion of the April 17 board meeting, the Pennichuck board instructed SG Barr Devlin to

encourage PSC and the leading cash bidder to increase the value that each was offering to pay for each share of Pennichuck common stock,

encourage PSC to propose a collar that would lessen the exposure that Pennichuck shareholders would have to a decrease in the market price of PSC stock, and

request that each bidder indicate whether it was willing to permit Pennichuck to commit to make a lump sum retention bonus substantially similar to the terms considered by the Compensation Committee.

The Pennichuck board also directed SG Barr Devlin and legal counsel to inform each bidder of the non-economic terms of its proposal that would materially detract from the Pennichuck board's further consideration of the bidder's offer.

PSC and the leading cash bidder communicated revised offers to SG Barr Devlin on April 19, 2002. The cash bidder increased its offer to \$30.00. PSC's proposal a fixed exchange ratio of 1.381 shares of PSC stock for each Pennichuck share did not change. Each bidder also indicated

that it would be amenable to Pennichuck committing to pay a retention bonus to each of its executive officers equal to up to 50 percent of their present annual salary and indicated its willingness to withdraw or modify in a manner acceptable to Pennichuck all or substantially all of the non-economic terms of their proposals to which Pennichuck had objected.

Evaluation of PSC's Business, Financial Condition and Stock Market Valuation. Following receipt of the revised proposals from PSC and the other bidder, the Committee instructed SG Barr Devlin and legal counsel to conduct a due diligence review of PSC's business and financial condition, so that the Pennichuck board could make an informed decision as to whether the PSC proposal was superior to the leading cash proposal or the Stand-alone Strategy. On April 23, 2002, SG Barr Devlin, Maurice Arel and Charles Staab, Pennichuck's Chief Financial Officer, met with several PSC executive officers, who provided a detailed presentation about PSC's business, including its internal financial projections. In the following days, PSC also provided additional information requested by Pennichuck's counsel.

Messrs. Keller and Clough from the Committee and Messrs. Arel, Bellavance, Densberger and Staab and Ms. O'Neill met later on April 23 with SG Barr Devlin and counsel to receive a presentation regarding the revised offers and a preliminary report on their due diligence review of PSC. SG Barr Devlin summarized the material terms of each revised bid, including the fact that, although PSC had chosen not to include a collar arrangement as part of its revised offer, PSC management had indicated that PSC might ultimately be willing to accept a relatively narrow collar.

Messrs. Arel and Staab and SG Barr Devlin summarized their understanding of PSC's business and financial condition and conveyed their favorable impressions of PSC's business plan. The Pennichuck directors then discussed at length the relatively high valuation of PSC stock compared to other publicly traded water companies, noting, among other things, PSC's track record of delivering consistently strong earnings growth, having achieved compounded annual earnings per share growth of 17.8 percent for the past ten years. SG Barr Devlin also explained that the recent trading range for PSC stock was generally consistent with other publicly traded water companies, taking into account the market's expectations regarding PSC's earnings and dividend growth. The Pennichuck board considered that PSC's current dividend rate was \$0.53 per year, and therefore, assuming no change in such rate, the pro forma equivalent dividend rate for Pennichuck shareholders (equal to approximately \$0.73) would be approximately 6.0 percent less than Pennichuck's current dividend rate of \$0.78 per year.

The Pennichuck directors also discussed that Vivendi Environnement and its affiliates then owned 16.8 percent of the shares of PSC stock outstanding at that time and that Vivendi Environnement then was a 63 percent owned subsidiary of Vivendi Universal SA. The Pennichuck directors considered, among other things,

SG Barr Devlin's understanding that Vivendi had a relatively low cost basis in PSC stock compared to PSC's market price at that time,

the substantial decline of Vivendi Universal's stock price in recent months (approximately 39 percent since the beginning of 2002), and

Vivendi Universal's March 5, 2002 announcement that it was writing off €15.2 billion of goodwill (under US generally accepted accounting principles).

In particular, the Pennichuck board discussed whether such circumstances might lead Vivendi to sell or seek to sell all or substantially all of its interest in PSC prior to the closing of the merger and the potential impact that such action might have on the market price of PSC stock.

The Pennichuck board also asked SG Barr Devlin to express its view on the likely effects on PSC of the announcement of a merger with Pennichuck. SG Barr Devlin advised the Pennichuck directors that PSC's announcement of an agreement to acquire Pennichuck would be unlikely to have a material adverse effect on the market price of PSC stock. SG Barr Devlin noted that it expected that the Pennichuck merger would increase PSC's earnings per share slightly and would probably be perceived by the investment community as being consistent with PSC's previously disclosed acquisition goals. SG Barr Devlin also observed that Pennichuck's New Hampshire operations would complement PSC's existing franchise in Maine and that Pennichuck's business would constitute a relatively small percentage of PSC's post-merger operations.

The Committee members present at that meeting and SG Barr Devlin advised the other Pennichuck directors that, in the opinion of the Committee and SG Barr Devlin, each of the PSC offer and the leading cash offer appeared to be more attractive to Pennichuck's shareholders from a financial point of view than the Stand-alone Strategy, and that the PSC offer appeared to be superior to the leading cash offer, even without a collar or a termination right based upon a decline in PSC's stock price (sometimes referred to as a "walkaway right"). Nevertheless, the consensus among the Pennichuck directors who participated in that meeting was that SG Barr Devlin should endeavor to negotiate a narrow collar or, alternatively, a walkaway right with PSC.

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Consideration of Final PSC Offer. The entire Pennichuck board met on April 25, 2002 to consider the analyses of SG Barr Devlin and the Committee's recommendation. SG Barr Devlin reported that PSC had agreed to the collar arrangement described elsewhere in this proxy statement prospectus that would provide Pennichuck shareholders with \$33.00 of value in PSC stock if the average market price of PSC stock prior to closing is not greater than \$25.00 and not less than \$23.00. See "The Merger - General" on page 25 for a description of the collar.

At the request of the Pennichuck board, SG Barr Devlin presented detailed analyses of, and responded to questions regarding, the financial aspects of the proposed acquisition described in more detail in "The Merger - Opinion of Pennichuck's Financial Advisor" on page 42. SG Barr Devlin reviewed the following factors, among others:

the current market price of PSC stock and PSC's historical and projected financial performance, and the expectations of research analysts who follow PSC stock,

the valuation of Pennichuck under the PSC offer compared to SG Barr Devlin's estimated acquisition valuation range for Pennichuck,

the valuation offered by the leading cash bidder,

the possibilities that other potential strategic acquirers might have greater interest in acquiring Pennichuck in the foreseeable future, and

Pennichuck's relative prospects under the Stand-alone Strategy.

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In discussing Pennichuck's valuation under the final PSC offer, SG Barr Devlin reviewed its various financial assumptions, including the estimated range of the acquisition values for Pennichuck that it had provided to the Pennichuck directors in December 2001 and on April 17, 2002, based upon the valuations paid in the 12 acquisitions of United States-based water companies completed or announced since 1995. SG Barr Devlin advised the Pennichuck board that it viewed PSC's offer as valuing Pennichuck's water business, excluding its real estate development ventures, above the high end of that range of estimated acquisition values, assuming a \$33.00 per share valuation based upon the closing price of PSC stock on April 24, 2002 and assigning \$2.89 per share of the \$33.00 to Pennichuck's real estate development ventures. The Pennichuck board also considered that the valuation of Pennichuck as a whole, including its real estate development ventures, was within the range of the valuations paid in the other water company acquisitions cited by SG Barr Devlin as a multiple of Pennichuck's estimated net income for 2002 and its book value per share as of December 31, 2001.

SG Barr Devlin advised the Pennichuck board that PSC's offer was in its judgment superior to the leading cash offer of \$30.00 per share. The Committee concurred with SG Barr Devlin's view. The Pennichuck directors also considered that if, as expected, the merger under PSC's offer qualified as a tax-free reorganization, it would give Pennichuck shareholders the opportunity to defer the taxable gain that they would recognize in a cash acquisition and the possibility of maintaining a dividend income stream that was substantially comparable to, although lower than, the current dividend income received by Pennichuck shareholders.

In response to questions from the Pennichuck board, SG Barr Devlin advised the Pennichuck board that the three offers then under consideration were, in SG Barr Devlin's judgment, most likely the best offers available from the companies that could be expected to have the greatest strategic interest in acquiring Pennichuck. Moreover, SG Barr Devlin advised the Pennichuck board that SG Barr Devlin believed it was unlikely that either of the two potential strategic acquirers that had signed confidentiality agreements but had not conducted due diligence or submitted final offers would subsequently develop a greater interest in acquiring a New Hampshire water company such as Pennichuck. The Pennichuck board also considered the extent to which the Pennichuck acquisition would be strategically important to PSC because Pennichuck's New Hampshire operations would effectively complement PSC's Maine subsidiary and allow PSC to realize greater economies of scale in northern New England.

SG Barr Devlin also expressed the view that PSC's final offer was a more favorable strategic alternative for Pennichuck shareholders than the Stand-alone Strategy. In particular, SG Barr Devlin questioned whether Pennichuck shareholders could achieve a price of \$33.00 per share within the next five years under the Stand-alone Strategy as management was projecting, even if Pennichuck were able to achieve the level of earnings from future real estate development and contract operations contemplated in Pennichuck's internal financial projections. SG Barr Devlin also commented that during the next five years it was more likely than not that the value of Pennichuck stock under the Stand-alone Strategy would be less than the equivalent value of PSC stock that Pennichuck shareholders would receive in the merger. Its analysis of future stock price performance assumed that both Pennichuck and PSC shares trade in line with current water industry multiples, that PSC's earnings per share grow at a rate consistent with analysts' consensus estimates and that Pennichuck achieved management's projections (as adjusted by SG Barr Devlin) of future earnings per share performance. SG Barr Devlin also noted that the merger under the PSC offer would provide

Pennichuck shareholders with substantially greater liquidity for their investment than they currently had. SG Barr Devlin also observed that the merger under the PSC proposal would provide Pennichuck shareholders with a more geographically diverse source of earnings and reduce their exposure to earnings from real estate development, which all of the bidders valued less highly than Pennichuck's water businesses.

At the conclusion of its presentation, SG Barr Devlin advised the Pennichuck board that, subject to the finalization of the merger agreement and the completion of its internal review procedures, SG Barr Devlin was prepared to deliver its written opinion that the consideration to be received by Pennichuck shareholders under the PSC offer was fair to those shareholders from a financial point of view. See "The Merger Opinion of Pennichuck's Financial Adviser" on page 42.

Following the SG Barr Devlin presentation, the Committee members and each of the other directors expressed their views about the relative merits of the PSC offer, the leading cash offer, and the Stand-alone Strategy. The Committee unanimously recommended that Pennichuck seek to enter into a definitive merger agreement on the terms of the revised PSC offer, including the \$23.00 to \$25.00 collar described at the meeting, and each of the Committee members summarized the basis for his conclusion. It was the consensus of the Committee that the final PSC offer was unequivocally better for the Pennichuck shareholders than either the \$30.00 cash offer or the Stand-alone Strategy.

Messrs. Staab, Densberger and Bellavance and Ms. O'Neill offered a competing point of view, advocating that Pennichuck pursue the Stand-alone Strategy instead of either the final PSC offer or the \$30.00 per share cash offer.

Mr. Staab noted in his presentation that:

Pennichuck stock had provided a greater return to investors than PSC stock during the five-year period ended December 31, 2001 (a compounded annual return of 32.4% versus 22.5%, respectively, assuming in each case the reinvestment of dividends);

he expressed confidence that Pennichuck would achieve significant growth in its contract operations business, and he expected that such growth would cause Pennichuck's compounded annual growth in earnings per share (exclusive of the expected decline in the growth of the real estate business) to exceed the earnings per share growth contained in PSC's projections by approximately 11 percent; and

if PSC's stock price as a multiple of earnings were to decline to its average price/earnings multiple for the past five years of 20.7x (which also approximated the average price/earnings multiple for the water industry at that time), the value to Pennichuck shareholders would be approximately 13 percent less than the \$33.00 value per share offered within the collar of PSC's proposal.

Mr. Densberger noted in his presentation that:

Pennichuck shareholders would experience a decline in the equivalent dividend per share (ranging from 2.6 percent to 10.3 percent, depending on the exchange ratio);

Pennichuck shareholders would experience substantial dilution to book value per share (of approximately 17.6% percent from a book value of \$12.81 per share at Pennichuck at December 31, 2001 to a pro forma equivalent PSC book value of \$10.57, assuming an exchange ratio of 1.375 at the midpoint of the collar range);

he felt PSC's relatively high price/earnings multiple would expose Pennichuck shareholders to greater market risk if PSC were unable to meet its growth targets; and

he believed that Pennichuck's pursuit of the Stand-alone Strategy was more likely to produce greater value for Pennichuck shareholders than any stock-for-stock acquisition of Pennichuck at a value of less than \$36.00 per share, because of the near term growth he anticipated in Pennichuck's contract operations and Pennichuck's historical growth in recent years in comparison to that of potential stock-for-stock acquirers.

Mr. Bellavance and Ms. O'Neill similarly expressed their belief that the long-term value of Pennichuck stock under the Stand-alone Strategy would be greater than the value that Pennichuck shareholders would receive in the merger proposed by PSC. Mr. Bellavance and Ms. O'Neill specifically concurred with many of the reservations expressed by Messrs. Staab and Densberger, including the

current valuation of PSC stock relative to its book value and historical and projected earnings, and the decline in the equivalent amount of dividends per share that Pennichuck shareholders would receive. Mr. Bellavance and Ms. O'Neill also expressed the following views:

the value of PSC's offer was inadequate because it would not provide Pennichuck shareholders with a sufficient premium over the recent market price of Pennichuck stock (as illustrated by the fact that PSC's offer valued at \$33.00 per share on April 24, 2002 was only 16 percent in excess of Pennichuck's highest recent stock price (\$28.53 on April 15, 2002), compared with premiums of (A) 19 percent, which was the lowest premium to market price on the day prior to the announcement of the water company acquisitions that SG Barr Devlin cited in its presentations, and (B) 31 percent, which was the statistical mean of such premiums excluding the high and low end of the range);

the preliminary indication of interest that placed the highest valuation on Pennichuck but was withdrawn shortly following its submission was, in their judgment, more consistent with the valuations paid in other recent water company acquisitions and they believed was an indication that Pennichuck shareholders could receive a greater value in the future;

the projected premium to be paid by PSC relative to Pennichuck's recent trading price could decline and potentially be eliminated if the market price of PSC's stock were lower as of the closing; and

PSC stock was then trading at a price/earnings ratio that was the highest in the industry and was at its 52-week high, indicating, in their opinion, the relatively high probability that the market price of PSC stock would be volatile and could be expected to be lower as of the closing.

Mr. Bellavance, who was at the outset in favor of reviewing opportunities for Pennichuck to be acquired, voiced his general preference for acquisitions in which the shareholders of the acquired company received a fixed cash price per share. He noted his prior experience with stock-for-stock acquisitions and his perception that the stock market would continue to be relatively volatile. Mr. Bellavance stated that, after learning of the final bids made by potential acquirers, he would vote against the merger with PSC because he believed the acquisition premium to be paid by PSC was insufficient when compared with comparable transactions identified by SG Barr Devlin. Further, he believed that PSC's stock was particularly vulnerable to stock market volatility because its price/earnings ratio was at that time the highest among publicly-traded water companies.

In discussing the concerns voiced by Ms. O'Neill and Messrs. Bellavance, Staab and Densberger, one or more of the other Pennichuck directors expressed the following views, among others:

Pennichuck's very limited, recent experience in providing contract operations did not provide a sufficient basis to support the conclusion that revenue and net income from contract operations would increase to the extent provided in management's financial projections;

even if the market price of PSC stock were to decline to the extent that Mr. Staab's analysis indicated was possible, the value of PSC stock delivered per share of Pennichuck stock would still exceed by approximately 11 percent the market price of Pennichuck stock on April 24, 2002 (\$25.77);

given the relatively illiquid market for Pennichuck stock, especially compared to the market for PSC stock, the Pennichuck directors could not expect that all or substantially all of Pennichuck shareholders could actually realize a higher value per share under the Stand-alone Strategy than that which would be provided through the proposed acquisition by PSC, even if Pennichuck's earnings per share were to increase at a faster rate than those of PSC;

PSC had a quality management team with a demonstrated record of consistently strong growth in revenue and net income, a commitment to substantial capital expenditures, and a positive reputation for customer service;

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PSC would provide an attractive opportunity for Pennichuck employees to continue their careers within the water industry; and

PSC's offer (valued at \$33.00 per share based on the closing price of PSC stock on April 24, 2002) represented a 28 percent premium over the most recent market price for Pennichuck stock (\$25.77 on April 24, 2002).

It also was the consensus of those other Pennichuck directors that it was inappropriate to place particular emphasis on the premium of the PSC offer relative to the highest recent market price for Pennichuck stock as compared to the comparable premiums in the other water company acquisitions cited by SG Barr Devlin. Among other things, those directors contended that a comparison to Pennichuck's recent trading range was less relevant because of the substantial increase in Pennichuck stock since the third quarter of 2001, as was reinforced by SG Barr Devlin presentations to the directors showing that the appreciation of Pennichuck's market price during that period had significantly exceeded the appreciation of an index of small publicly traded water companies. Those other Pennichuck directors also noted that a comparison to the premiums over market price from the other water company acquisitions was outweighed by the existence of two competing offers for Pennichuck, which were the only other offers that resulted from SG Barr Devlin's solicitation of the most likely potential acquirers and each of which that placed a lower value on Pennichuck than PSC's offer.

Finally, Mr. Arel explained that, although he had initially opposed exploring Pennichuck's opportunities to be acquired, the several months leading up to the April 25th Board meeting had changed his mind. Following the auction process, the subsequent discussions by the Pennichuck board concerning the operational challenges facing Pennichuck and Pennichuck's potential for future growth, and his meeting with and due diligence review of PSC, he came to believe that a merger with PSC was in the best interest of both Pennichuck's shareholders and customers, in light of those factors set forth under "Pennichuck's Reasons for the Merger."

Pennichuck Board's Approval of PSC's Offer. Upon the conclusion of that discussion at the April 25 board meeting, by a vote of five to four, with Maurice Arel, Charles Clough, Robert Keller, John Kreick and Hannah McCarthy in favor and Joseph Bellavance, Stephen Densberger, Martha O'Neill and Charles Staab opposed, the Pennichuck board voted to adopt the Committee's recommendation that Pennichuck seek to enter into a definitive merger agreement with PSC on the terms of the revised PSC offer, including the \$23.00 to \$25.00 collar.

Following that vote, legal counsel presented a detailed analysis of, and responded to questions from the Pennichuck directors regarding, the terms of the merger agreement and outlined the expected timetable to negotiate a definitive agreement with PSC. Thereafter, the Pennichuck board authorized Mr. Arel to enter into a definitive merger agreement with PSC, provided that Pennichuck had previously received SG Barr Devlin's written fairness opinion. The Pennichuck board also instructed Mr. Arel, in consultation with the Compensation Committee, to seek to increase the aggregate amount of, and number of employees covered by, the retention bonus arrangement so that the arrangement could also provide a financial incentive for several non-executive officers to remain with Pennichuck through the closing of the merger.

Final Negotiations and Announcement of Merger Agreement. On April 26, 2002, Mr. Arel, SG Barr Devlin and Pennichuck's legal counsel updated the Pennichuck board regarding the negotiations with PSC. The advisers informed the Pennichuck board that they did not expect any material change to the form of merger agreement that the board considered the previous day. Mr. Arel also reported that PSC had indicated a willingness to consider increasing the aggregate amount of, and number of employees

covered by, the retention bonus arrangement consistent with the terms that Mr. Arel had previously discussed with Mr. Clough, the Chairman of the Compensation Committee.

SG Barr Devlin and Pennichuck's legal counsel also provided a further update on their due diligence review of PSC, including their assessment of additional information that PSC provided subsequent to the April 25 board meeting regarding its relationship with Vivendi Environnement. SG Barr Devlin and counsel informed the board that Vivendi Environnement had communicated to PSC that Vivendi was then actively evaluating how it might monetize its investment in PSC. The Pennichuck board discussed various actions Vivendi Environnement might reasonably take to achieve that objective and considered the potential impact that one or more such actions could be expected to have on the market price of PSC stock. (See "PSC Status of Selling Shareholder Vivendi Environnement" on page 77 for a description of the disposition of the common stock owned by Vivendi Environnement.)

The Pennichuck board also voted unanimously that the definitive merger agreement should provide for the appointment of Mr. Arel to the board of directors of PSC effective as of the completion of the merger.

On April 28, 2002, Pennichuck and PSC concluded negotiation of the definitive merger agreement without any material changes to the merger agreement from the version previously approved by the Pennichuck board, and SG Barr Devlin delivered its written fairness opinion to

the Pennichuck board. Pennichuck and PSC entered into and announced the merger agreement on April 29, 2002 before the opening of trading in Pennichuck and PSC stock.

Pennichuck's Reasons for the Merger

In reaching its conclusions and recommendation that you vote for the approval of the merger agreement, the Pennichuck board considered a number of factors. The Pennichuck board did not quantify or otherwise assign relative weights to the specific factors considered in reaching its determination. The material factors considered by the Pennichuck board consisted of the following matters:

the value to be received by the shareholders of Pennichuck in the merger with PSC, which a majority of the Pennichuck board viewed as greater than the shareholder value that could reasonably be expected to be generated from the other strategic options available to Pennichuck, including pursuing the Stand-alone Strategy;

the risks and uncertainties associated with the merger with PSC, which were viewed by a majority of the Pennichuck board as being fewer than those associated with the Stand-alone Strategy and Pennichuck's other strategic alternatives;

the current and prospective environment in which Pennichuck operates and the trend toward consolidation in the water industry, both weighing in favor of the merger with PSC;

the relatively high valuation of water company stocks and the valuation of the PSC offer, which a majority of the Pennichuck board believed compared favorably to other offers submitted to Pennichuck and other comparable water company transactions;

the acquisition of Pennichuck in exchange for PSC common stock will be a tax-free reorganization for federal income tax purposes, which would enable Pennichuck shareholders to defer the recognition of any taxes in the transaction;

the intention of Pennichuck's President and Chief Executive Officer, Maurice L. Arel, to retire, making a merger with PSC more attractive to some members of the Pennichuck board;

the auction process conducted by SG Barr Devlin that resulted in financial and other terms and conditions of the merger and the merger agreement that a majority of the Pennichuck board viewed as being favorable to Pennichuck shareholders and providing a strong indication of the market value of Pennichuck in an acquisition;

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the extensive arms-length negotiations between Pennichuck and PSC that resulted in financial and other terms and conditions of the merger and the merger agreement that a majority of the Pennichuck board viewed as being favorable to Pennichuck shareholders and providing what a majority of the Pennichuck board believed was a strong indication of the market value of Pennichuck in an acquisition;

the historical market prices and trading activity of Pennichuck common stock and the potential for Pennichuck shareholders to receive a premium over the closing price of Pennichuck common stock on April 26, 2002, the last trading day prior to the public announcement of the merger, with the Pennichuck board recognizing that, if on the date the merger is consummated, the PSC average closing price is the same as it was on April 26, 2002, Pennichuck shareholders will receive

a premium of approximately 22.2% over the closing price of Pennichuck common stock on April 26, 2002, and

a premium of approximately 26.4% over the average closing price of Pennichuck common stock for the three months during which such securities traded prior to April 26, 2002;

the uncertainty surrounding the indication by Vivendi Environnement S.A. of its desire to monetize its investment in approximately 16% of the outstanding PSC common stock and the attendant risk that the premium to be

received by Pennichuck shareholders in the merger would be reduced or eliminated;

the fact that the per share dividend income payable by PSC to Pennichuck's shareholders following the merger, although lower, would be substantially comparable with Pennichuck's current per share dividend income stream;

the favorable impressions on the Pennichuck board of PSC's management, business plan and operational track record;

the greater geographic diversity of PSC's customer base as compared to that of Pennichuck, which would be an advantage to Pennichuck shareholders in times of adverse weather conditions;

the advice of SG Barr Devlin, subsequently confirmed in its April 28, 2002 written opinion to the Pennichuck board to the effect that, as of that date and based upon and subject to the matters described in such opinion, the exchange ratio specified in the merger agreement was fair, from a financial point of view, to the Pennichuck shareholders (other than PSC and its affiliates);

The full text of SG Barr Devlin's written opinion, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken by SG Barr Devlin, is attached as Appendix C and is incorporated by reference in this proxy statement prospectus. In addition, the opinion is discussed in more detail below under the caption "The Merger Opinion of Pennichuck's Financial Advisor" on page 42. Pennichuck shareholders are urged to read the opinion of SG Barr Devlin carefully in its entirety.

the Pennichuck board's belief that there are only customary conditions to the obligations of PSC to consummate the merger pursuant to the terms of the merger agreement, which weighed in favor of approval of the merger agreement;

the Pennichuck board's belief that the terms of the merger agreement, which prohibit Pennichuck and its officers, directors, employees or representatives from soliciting, initiating or encouraging any acquisition proposal or participating in any discussion regarding any acquisition proposal and require the payment of a \$2,500,000 termination fee in the event the board decides to accept an acquisition proposal, should not unduly discourage other third parties from making bona fide proposals subsequent to signing the merger agreement

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with PSC and otherwise gives the board the flexibility needed to comply with its fiduciary duties under New Hampshire law.

There can be no assurance that the strategic goals of the merger will be achieved by PSC. The past performance of PSC common stock is not necessarily indicative of future performance. See "Risk Factors" on page 16 and "Market Price and Dividend Information" on page 13.

Subsequent Developments

The Pennichuck board and the Strategic Planning Committee have met from time to time after the April 29, 2002 announcement of the merger agreement to consider the following three subsequent developments:

Vivendi Environnement's divestiture of all of its shares of PSC common stock and the resulting impact on the market value of PSC common stock;

the New Hampshire Public Utilities Commission's approval of a protracted timetable for consideration of the proposed merger; and

efforts by the City of Nashua and other municipalities in Pennichuck's service area to acquire Pennichuck water works assets by eminent domain.

Vivendi Environnement's Divestiture of PSC Investment. On May 12, 2002, PSC announced that Vivendi Environnement intended to sell all of the shares of PSC common stock owned by its subsidiaries as part of its overall strategy to divest non-core assets and focus on establishing long-term partnerships with municipalities in the United States. On May 13, the first trading day following that announcement, the closing

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market price for PSC common stock was \$22.80, representing a 5.0 percent decline from the closing price on April 24, 2002 of \$23.99. The Pennichuck board and the Strategic Planning Committee monitored these developments and had representatives of SG Barr Devlin and Pennichuck's legal advisor meet with PSC in late June to discuss in detail PSC's plan for the disposition of Vivendi Environnement's interest in PSC. In early July, PSC announced that it had agreed with Vivendi Environnement on a plan to effect the divestiture of Vivendi Environnement's investment in PSC. The plan involved an underwritten public offering of a substantial portion of the shares of PSC common stock owned by Vivendi Environnement. Contemporaneously with that announcement, PSC and Pennichuck agreed to defer filing this proxy statement prospectus with the SEC at least until the timing of that public offering could be determined.

PSC announced on July 8, 2002 that it had reached an agreement with Vivendi Environnement to effect the divestiture of Vivendi Environnement's investment in PSC. On September 26, 2002, Vivendi Environnement's subsidiaries sold approximately 9.9 million shares of PSC common stock in an underwritten public offering at a price of \$18.25 per share. The July 8, 2002 agreement also obligated PSC to purchase the remaining shares of PSC common stock owned by Vivendi Environnement's subsidiaries (approximately 1.2 million shares) at the same price per share.

The price per share at which Vivendi Environnement's subsidiaries sold PSC common stock in that public offering was 23.9 percent less than the closing market price of PSC common stock on April 24, 2002. The Strategic Planning Committee and Pennichuck board met on September 30 and October 4, respectively, to consider the implications of the decline in PSC's market value and the value of the merger consideration even though both had increased significantly since the completion of the offering on September 26. At those meetings, the Pennichuck directors received presentations from SG Barr Devlin and Pennichuck's legal advisor. Among other things, SG Barr Devlin noted that the closing market price of PSC common stock on October 2 (\$20.87) reflected a 13.0 percent decline since April 26, as compared to a decline of approximately 5.0 percent in the value of an index of selected water utilities. See "Opinion of Pennichuck's Financial Advisor" on page 42 for a description of that index. The Pennichuck directors also considered, among other factors, the volatility in the market price of PSC common stock since April 24 as well as the positive trend in PSC's market value since September 26. It was the consensus of the Pennichuck directors that Pennichuck should try to broaden

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the range of the \$23.00 to \$25.00 collar for the merger consideration in order to mitigate, at least partially, the risk of continued volatility in PSC's market price. Despite the factors discussed above, the directors who voted in favor of the merger believed that the proposed merger with PSC would still be in the best interest of Pennichuck shareholders without any change in the collar. During the next several weeks, Pennichuck and PSC discussed possible changes to the collar arrangement, but ultimately they were unable to agree on an amendment to the merger agreement.

Schedule for New Hampshire Public Utilities Commission Proceeding. Pennichuck and PSC may not complete the merger unless and until there is a final, non-appealable order of the New Hampshire Public Utilities Commission approving the merger. See "The Merger Agreement Conditions to Completion of the Merger" on page 64. The application for PUC approval was filed in June with the PUC. In July, reacting to pressure for a delay from various parties who have intervened in the PUC proceeding, the PUC's staff recommended a schedule for action on the merger application that contemplated the PUC would not render a decision until February 28, 2003. The PUC approved that schedule in all material respects on August 9, 2002.

If the PUC approves the merger, the PUC's order will not be final, and Pennichuck and PSC therefore will not be able to complete the merger, until the order is no longer subject to modification or reversal as a result of reconsideration by the Commission or an appeal. Given that the PUC will not act on the application before the end of February, Pennichuck and PSC expect that an intervener will prevent the PUC's order from becoming a final order by March 31, 2003 by filing a motion for a rehearing and a notice of appeal with the New Hampshire Supreme Court.

At the Pennichuck board and Strategic Planning Committee meetings held after PUC approval of that schedule, Pennichuck directors considered that either Pennichuck or PSC could unilaterally terminate the merger agreement if the merger is not completed on or before March 31, 2003 (provided that the company terminating the agreement has not breached the merger agreement or failed to fulfill its obligations under the merger agreement and such breach or failure caused or resulted in the merger not being completed). Accordingly, by a vote of eight to one, with Ms. O'Neill dissenting, the Pennichuck board decided to propose to PSC that they amend the merger agreement to provide that the March 31, 2003 date would automatically be extended if by that date the PUC and Pennichuck shareholders have approved the merger and all of the other conditions to the consummation of the merger, except for the expiration of any rehearing, appeal or waiting period with respect to the PUC order, were satisfied or waived or could readily be satisfied. Pennichuck and PSC discussed but ultimately were unable to agree on such a change to the merger agreement.

Municipalization Efforts. In November 2002, the Board of Aldermen of the City of Nashua adopted a formal resolution to hold a City-wide referendum on January 14, 2003 to approve an eminent domain proceeding or other acquisition of all or a portion of the Pennichuck

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water works system serving the residents of Nashua and other customers. Separately, several other communities whose residents are served by one or more of Pennichuck's subsidiaries have expressed preliminary interest in forming a regional water authority for the purposes of acquiring and operating a substantial portion of Pennichuck's water works system.

At various meetings of the Pennichuck board held in November and December 2002 and January 2003, the Pennichuck directors discussed the implications of an acquisition of the Pennichuck water works system by eminent domain and, in particular, the ramifications of the January 14 referendum. The discussion of the Pennichuck directors focused primarily on the following factors:

Pennichuck and its shareholders (either directly or indirectly) would experience adverse income tax consequences if the City of Nashua (or a regional water authority) acquires the Pennichuck water works system.

The Pennichuck board believed there is a substantial risk that those adverse tax consequences would significantly reduce the value that Pennichuck shareholders ultimately

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would receive for their stake in Pennichuck if the City of Nashua (or a regional authority) acquires the Pennichuck water works system.

In an eminent domain scenario, the City of Nashua (or a regional authority) would not be bound to proceed with the acquisition until the final terms were approved by its governing body and the City or authority issued bonds or obtained other financing to fund the acquisition.

An eminent domain proceeding would be highly uncertain and likely involve protracted proceedings before the New Hampshire PUC, especially if Pennichuck were to object to such a proceeding, partly because the integrated nature of Pennichuck's water works system and the significant interests of other communities in Pennichuck's service area would require the PUC to address a number of unprecedented issues related to Pennichuck's assets and operations outside the City of Nashua.

As of the special meeting of Pennichuck shareholders, there could be no assurance that the City of Nashua (or a regional authority) would in fact acquire Pennichuck assets and, if so, what price would be paid for those assets.

With respect to the likely adverse tax consequences that could result from a municipal acquisition of Pennichuck assets, the Pennichuck directors considered that if the City of Nashua (or a regional authority) acquired for cash in an eminent domain proceeding a substantial portion of the assets constituting the Pennichuck water works system, Pennichuck would be taxed as if it had willingly sold those assets to the City and would have to recognize a substantial gain on such a sale (unless Pennichuck uses the cash to purchase similar operating assets, which the Pennichuck directors believe is an unlikely scenario). When Pennichuck distributes the cash proceeds to its shareholders, another tax would be triggered at the shareholder level, as Pennichuck shareholders generally would be taxed at capital gain rates (generally 20%) on the portion of the cash received that exceeded their tax basis in Pennichuck stock.

The Pennichuck directors also considered that even if the City of Nashua (or a regional authority) were willing to structure the acquisition of the water works in a manner that could allow Pennichuck shareholders to defer tax on the cash they receive, such a structure still would trigger adverse tax consequences. In such a scenario, the City (or a regional authority) would acquire all of the stock of Pennichuck Corporation for cash. Any Pennichuck shareholder could defer tax on the sale of their shares by reinvesting the cash in one or more generally comparable utility company stocks. The tax consequences for Pennichuck still would be disadvantageous, however, as Pennichuck would be deemed to have sold all of its assets to the City at fair market value immediately before the City's acquisition of the Pennichuck stock, resulting in a substantial gain. According to Pennichuck's preliminary estimates, the income tax liability resulting from such a deemed asset sale would be approximately \$12 million to \$15 million. It was the consensus of the Pennichuck directors that although this tax liability would technically be the responsibility of Pennichuck and not its shareholders, the existence of the tax liability upon completion of the acquisition would likely reduce significantly the value that the City would be willing to pay the Pennichuck shareholders for their shares of Pennichuck common stock.

The Pennichuck directors unanimously believe that an acquisition of the Pennichuck water works system by the City of Nashua (or a regional authority) is not the best strategic option available for Pennichuck shareholders. The Pennichuck board therefore has directed Pennichuck's management to campaign actively in opposition to the City of Nashua referendum scheduled to be held on January 14, 2003.

Recommendation of the Pennichuck Board

The Pennichuck board, by a vote of five to four, has determined that the merger with PSC pursuant to the terms of the merger agreement is in the best interest of Pennichuck shareholders and recommends that the Pennichuck shareholders vote for approval of the merger agreement.

Opinion of Pennichuck's Financial Advisor

Pursuant to an engagement letter dated November 9, 2001, Pennichuck retained SG Barr Devlin to act as a financial advisor with respect to Pennichuck's general financial strategy and planning in connection with maximizing the value of Pennichuck. On April 28, 2002, SG Barr Devlin rendered an opinion to the Pennichuck board as to the fairness, from a financial point of view, to the holders of Pennichuck common stock of the exchange ratio specified in the merger agreement. The exchange ratio was determined by arms length negotiation between PSC and Pennichuck.

On April 28, 2002, SG Barr Devlin delivered its opinion to the Pennichuck board to the effect that and subject to the various assumptions set forth therein, as of April 28, 2002, the exchange ratio specified in the merger agreement is fair, from a financial point of view, to the shareholders of Pennichuck. The full text of the written opinion of SG Barr Devlin, dated April 28, 2002, is attached as Appendix C and is incorporated by reference into this proxy statement prospectus. Holders of Pennichuck common stock are urged to read the opinion in its entirety for the assumptions made, procedures followed, other matters considered and limits of the review by SG Barr Devlin. The summary of the written opinion of SG Barr Devlin set forth herein is qualified in its entirety by reference to the full text of such opinion. SG Barr Devlin's analyses and opinion were prepared for and addressed to the Pennichuck board and are directed only to the fairness as of the date of the opinion, from a financial point of view, of the exchange ratio specified in the merger agreement, and do not constitute an opinion as to the merits of the transaction or a recommendation to any shareholder as to how to vote on the proposed merger.

In arriving at its opinion, SG Barr Devlin reviewed and considered such financial and other matters as it deemed relevant, including, among other things:

a draft of the Agreement and Plan of Merger as of April 28, 2002;

certain publicly available financial and other information for Pennichuck, and certain other relevant financial and operating data furnished to SG Barr Devlin by Pennichuck management;

certain publicly available financial and other information for PSC, and certain other relevant financial and operating data furnished to SG Barr Devlin by PSC management;

certain internal financial analyses, financial forecasts, reports and other information concerning Pennichuck (the "Pennichuck Forecasts") and PSC (the "PSC Forecasts"), prepared by the managements of Pennichuck and PSC, respectively, and the amounts and timing of the cost savings and related expenses expected to result from the merger furnished by the managements of Pennichuck and PSC (the "Expected Synergies");

First Call, IBES and certain other consensus estimates (the "Consensus Estimates") and financial projections in Wall Street analyst reports ("Wall Street Projections") for PSC;

discussions SG Barr Devlin had with certain members of the management of each of Pennichuck and PSC concerning the historical and current business operations, financial conditions and prospects of Pennichuck and PSC, the Expected Synergies and such other matters SG Barr Devlin deemed relevant;

certain operating results, the reported price and trading histories of the shares of the common stock of Pennichuck and PSC as compared to operating results, the reported price and trading histories of certain publicly traded companies SG Barr Devlin deemed relevant;

certain financial terms of the merger as compared to the financial terms of certain selected business combinations SG Barr Devlin deemed relevant;

based on the Pennichuck Forecasts, the PSC Forecasts and Wall Street Projections, the cash flows that each of Pennichuck and PSC expected to generate on a stand-alone basis to determine the present value of the discounted cash flows;

certain pro forma financial effects of the merger on an accretion/dilution basis; and

such other information, financial studies, analyses and investigations and such other factors that SG Barr Devlin deemed relevant for the purposes of its opinion.

In conducting its review and arriving at its opinion, SG Barr Devlin, with Pennichuck's consent, assumed and relied, without independent investigation, upon the accuracy and completeness of all financial and other information provided to it by Pennichuck and PSC or which was publicly available. SG Barr Devlin did not undertake any responsibility for the accuracy, completeness or reasonableness of, or independently verify, this information. In addition, SG Barr Devlin did not conduct any physical inspection of the properties or facilities of Pennichuck or PSC. SG Barr Devlin further relied upon the assurance of management of Pennichuck that they were unaware of any fact that would make the information provided to SG Barr Devlin incomplete or misleading in any respect. SG Barr Devlin, with Pennichuck's consent, assumed that the Pennichuck Forecasts and Expected Synergies provided to SG Barr Devlin were reasonably prepared by the management of Pennichuck, and reflected the best available estimates and good faith judgments of such management as to the future performance of Pennichuck and the Expected Synergies. Management of Pennichuck confirmed to SG Barr Devlin, and SG Barr Devlin assumed, with Pennichuck's consent, that the Pennichuck Forecasts, PSC Forecasts, Expected Synergies, the Consensus Estimates and Wall Street Projections utilized in SG Barr Devlin's analyses with respect to Pennichuck and PSC provided a reasonable basis for its opinion.

SG Barr Devlin did not make or obtain any independent evaluations, valuations or appraisals of the assets or liabilities of Pennichuck or PSC, nor was SG Barr Devlin furnished with any such materials. With respect to all legal matters relating to Pennichuck and PSC, SG Barr Devlin relied on the advice of legal counsel to Pennichuck. SG Barr Devlin expresses no opinion with respect to any such legal matters. SG Barr Devlin's services to Pennichuck in connection with the transaction included rendering an opinion from a financial point of view of the exchange ratio received in the transaction. SG Barr Devlin's opinion was necessarily based upon economic and market conditions and other circumstances as they existed and could be evaluated by SG Barr Devlin on the date of its opinion. It should be understood that although subsequent developments may affect its opinion, SG Barr Devlin does not have any obligation to update, revise or reaffirm its opinion and SG Barr Devlin expressly disclaims any responsibility to do so.

In rendering its opinion, SG Barr Devlin assumed, in all respects material to its analysis, that the representations and warranties of each party contained in the merger agreement were true and correct, that each party will perform all of the covenants and agreements required to be performed by it under the merger agreement and that all conditions to the consummation of the transaction would be satisfied without waiver thereof. SG Barr Devlin also assumed that all governmental, regulatory and other consents and approvals contemplated by the merger agreement would be obtained and that, in the course of obtaining any of those consents, no restrictions would be imposed or waivers made that would have an adverse effect on the contemplated benefits of the transaction.

SG Barr Devlin's opinion does not constitute a recommendation to any shareholder as to how the shareholder should vote on the proposed transaction. SG Barr Devlin's opinion does not imply any conclusion as to the likely trading range for PSC common stock following consummation of the merger or otherwise, which may vary depending on numerous factors that generally influence the price of securities. SG Barr Devlin's opinion is limited to the fairness, from a financial point of view, of the exchange ratio received in the merger. SG Barr Devlin expresses no opinion as to the underlying business reasons that may support the decision of the Pennichuck board to approve, or Pennichuck's decision to consummate, the transaction.

The following is a summary of the principal financial analyses performed by SG Barr Devlin to arrive at its opinion. Some of the summaries of financial analyses include information presented in tabular format. In order to fully understand the financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data set forth in the tables without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses. SG Barr Devlin performed certain procedures, including each of the financial analyses described below, and reviewed with the management of Pennichuck and PSC various assumptions on which such analyses were based and other factors, including the historical and projected financial results of

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Pennichuck and PSC. No limitations were imposed by the Pennichuck board with respect to the investigations made or procedures followed by SG Barr Devlin in rendering its opinion.

Bifurcated Valuation of Pennichuck's Water Business and Consolidated Operations: Relevance of the "Water Only"

Multiples. Throughout its analyses of Pennichuck, SG Barr Devlin viewed the company as having two distinct business lines with differing valuations:

- 1) Pennichuck's water business, consisting of its three regulated water utilities (Pennichuck Water Works, Inc., Pennichuck East Utility, Inc. and Pittsfield Aqueduct Company, Inc.), its water services business (Pennichuck Water Service Corporation) and corporate functions; and
- 2) its real estate development business that is conducted through various joint ventures in which Pennichuck's subsidiary, The Southwood Corporation, is an investor.

Although a significant portion of Pennichuck's historical and projected earnings are derived from its real estate business, Pennichuck's primary focus and the vast majority of its assets are water related. SG Barr Devlin valued the real estate portion of Pennichuck's business on a discounted cash flow basis (in which the projected future cash flows reflect liquidation of substantially all of the real estate portfolio by the end of the projection period) resulting in a value of approximately \$6.5 million to \$8 million. In its analysis of multiples paid, SG Barr Devlin allocated \$7 million of value to Pennichuck's real estate business and examined resulting implied multiples of Pennichuck's water business ("Water Only" multiples).

Analysis of Selected Transactions. SG Barr Devlin reviewed the financial terms, to the extent publicly available, of 12 transactions (the "Water Industry Transactions") involving the acquisition of companies in the U.S. regulated water industry, which were announced or completed since December 19, 1996. These transactions were (listed as target/acquirer):

IWC Resources Corporation/NIPSCO Industries, Inc.

Consumers Water Company/PSC

Aquarion Company/Yorkshire Water plc

United Water Resources Inc./Suez Lyonnaise des Eaux SA

Citizens Water Resources/American Water Works Company, Inc.

SJW Corp./American Water Works Company Inc.

E*Town Corporation/Thames Water plc

Sierra Pacific Resources Water Business/Truckee Meadows Water Authority

Utilities, Inc./Nuon

IWC Resources (Indianapolis Water Company)/City of Indianapolis

American Water Works Company, Inc. New England Assets/Kelda Group plc

American Water Works Company, Inc./RWE ag

SG Barr Devlin reviewed the value paid for common stock plus total debt less cash and equivalents ("Aggregate Value") in the Water Industry Transactions as a multiple of reported latest twelve month ("LTM") earnings before interest expense, income taxes, depreciation and amortization ("EBITDA") and earnings before interest expense and income taxes ("EBIT"). It also examined the multiples of value paid for common stock in the Water Industry Transactions to book value and to consensus current year and forward year earnings estimates as specified by FirstCall, IBES and other services.

The following table presents, for the periods indicated, the multiples implied by the ratio of Aggregate Value to LTM EBIT and LTM EBITDA, and the ratio of equity value to book value and current year and forward year earnings estimates. The multiples implied for Pennichuck in the table are based on a transaction value of \$33.00 per Pennichuck share implied by the exchange ratio and the closing price of PSC stock on April 26, 2002, the last full trading day prior to the date of SG Barr Devlin's opinion. In the following table, the "Water Only" multiples exclude Pennichuck's real estate business (valued at \$2.89 per share) and the "Consolidated" multiples include the real estate business. See "Bifurcated Valuation of Pennichuck's Water Business and Consolidated Operations: Relevance of the 'Water Only' Multiples" in this section on page 44.

	Multiples Paid in Water Industry Transactions				Multiple Implied by Exchange Ratio Received in the Merger for Pennichuck	
	Low	Median	Mean	High	Water Only	Consolidated
Aggregate Value as a multiple of:						
LTM EBIT	13.3x	15.5x	16.2x	19.6x	17.5x	11.9x
LTM EBITDA	9.6	11.4	11.9	13.9	11.9	8.8
Equity Value as a multiple of:						
Book Value	2.4x	2.7x	2.7x	2.9x	2.9x	2.6x
Current Year Est. Earnings	20.9	26.0	25.2	28.5	26.1	22.1
Forward Year Est. Earnings	18.1	25.4	23.6	25.9	24.2	22.5

SG Barr Devlin also applied representative multiple ranges derived from the Water Industry Transactions to the corresponding Pennichuck statistic for its water business and then added \$2.89 per share for the real estate operations, resulting in implied values for Pennichuck common stock of \$27.87 to \$32.08.

Although the Water Industry Transactions were used for comparison purposes, none of those transactions is directly comparable to the merger, and none of the companies in those transactions is directly comparable to Pennichuck or PSC. Accordingly, an analysis of the results of such a comparison is not purely mathematical, but instead involves complex considerations and judgments concerning differences in historical and projected financial and operating characteristics of the companies involved and other factors that could affect the acquisition value of such companies or Pennichuck to which they are being compared.

Analysis of Selected Publicly Traded Companies. To provide contextual data and comparative market information, SG Barr Devlin compared selected historical operating and financial data and ratios for Pennichuck to the corresponding financial data and ratios of certain other companies whose securities are publicly traded and which SG Barr Devlin believes have operating, market valuation and trading valuations similar in one or more ways to those of Pennichuck. These companies were:

American Water Works Company, Inc., which was analyzed on a 30-day unaffected basis to the September 17, 2001 announcement of its acquisition by RWE ag (LTM data as of September 30, 2001)

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PSC

California Water Service Group

American States Water Co.

SJW Corp.

Connecticut Water Service, Inc.

Middlesex Water Company

Southwest Water Company

The York Water Company

Artesian Resources Corporation

The data and ratios included the Aggregate Value of the selected companies as multiples of LTM EBITDA and LTM EBIT, and the market capitalization of common stock of the selected companies as a multiple of the book value of common shareholders' equity. SG Barr Devlin also examined the ratios of the current share prices of the selected companies to the LTM earnings per share ("EPS"), estimated 2002 calendar year EPS and estimated 2003 calendar year EPS (in each case, as available from consensus earnings estimates by FirstCall, IBES and other services) for the selected companies.

The following table presents, for the periods indicated, the multiples implied by the ratio of Aggregate Value to LTM EBIT and LTM EBITDA, and the ratio of equity value to Pennichuck Forecasts for 2002 and 2003 calendar years earnings. The implied ratios in the table are based on a transaction value of \$33.00 per Pennichuck share, which reflects the Exchange Ratio and the closing price of PSC stock on April 26, 2002. Again, in the following table, the "Water Only" multiples exclude Pennichuck's real estate business (valued at \$2.89 per share) and the "Consolidated" multiples include the real estate business. See " Bifurcated Valuation of Pennichuck's Water Business and Consolidated Operations: Relevance of the "Water Only' Multiples" in this section on page 42.

	Selected Company Multiples				Multiple Implied by Exchange Ratio Received in the Merger for Pennichuck	
	Low	Median	Mean	High	Water Only	Consolidated
Aggregate Value as a multiple of:						
LTM EBIT	10.4x	15.6x	15.1x	19.2x	17.5x	11.9x
LTM EBITDA	8.0	11.5	11.3	14.3	11.9	8.8
Equity Value as a multiple of:						
Book Value	1.7x	2.3x	2.5x	3.4x	2.9x	2.6x
Current Year Est. Earnings	17.4	24.1	22.3	26.2	26.1	22.1
Forward Year Est. Earnings	16.6	20.0	20.4	24.6	24.2	22.5

SG Barr Devlin also applied representative trading multiple ranges to the corresponding Pennichuck statistic for its water business and then added \$2.89 per share for the real estate operations, resulting in implied values for Pennichuck common stock of \$24.03 to \$28.23 per share without giving effect to a change of control premium.

SG Barr Devlin also applied a change of control premium to the implied values in the above analysis. Applying an estimated 25% to 30% premium to the above-implied values, respectively, produces implied values for Pennichuck common stock of \$31.24 to \$35.29 per share, as

compared to the equity value of \$33.00 per share implied by the exchange ratio and the closing price of PSC common stock on April 26, 2002.

Although the selected companies were used for comparison purposes, none of those companies is directly comparable to Pennichuck. Accordingly, an analysis of the results of such a comparison is not purely mathematical, but instead involves complex considerations and judgments concerning differences in historical and projected financial and operating characteristics of the selected companies and other factors that could affect the public trading value of the selected companies or that of Pennichuck.

Historical Stock Trading Analysis. SG Barr Devlin analyzed the closing prices of Pennichuck common stock over various periods ending April 26, 2002. The table below illustrates the stock prices for those periods and the premium implied by the offer price of \$33.00 per Pennichuck share (as implied by the exchange ratio and the closing price of PSC common stock on April 26, 2002) to the historical stock price.

	Pennichuck Stock Price	Premium/(Discount) Implied by Exchange Ratio
Latest Twelve Months Average	\$ 23.81	39%
Latest Six Months Average	\$ 25.06	32%
Latest Three Months Average	\$ 26.07	27%
Latest One Month Average	\$ 26.61	24%
One Month Prior Price	\$ 25.00	32%
High (Latest Twelve Months)	\$ 28.53	16%
Low (Latest Twelve Months)	\$ 19.50	69%
Current (as of 4/26/02)	\$ 27.00	22%

SG Barr Devlin also reviewed the performance of the per share market prices of Pennichuck common stock and compared such per share market price movements to movements in an index created to analyze the historical performance of selected water utilities (the "Water Index") to provide perspective on the current and historical stock price performance of Pennichuck relative to the Water Index. The Water Index included all the selected companies identified above, except for American Water Works due to the recent announcement of its plan to be acquired by RWE ag and the corresponding effect of such announcement on its price.

Discounted Cash Flow Analysis. SG Barr Devlin estimated a range of values for Pennichuck common stock (before adding the estimated real estate value of \$7.0 million) based upon the discounted present value of the projected Water Only after-tax unleveraged cash flows of Pennichuck described in the forecasts prepared by Pennichuck management and adjusted by SG Barr Devlin as discussed with management, for the fiscal years ending December 31, 2002 through December 31, 2006, and of the estimated terminal value of Pennichuck at December 31, 2002, based upon a multiple of forward-year (fiscal year ended December 31, 2007) earnings. This analysis was based upon certain assumptions described by, projections supplied by and discussions held with Pennichuck management. In performing this analysis, SG Barr Devlin utilized discount rates ranging from 7.50% to 8.50%, which were selected based on the estimated industry weighted-average cost of capital. SG Barr Devlin utilized terminal multiples of forward-year earnings ranging from 18.0 times to 21.0 times. These multiples represent the general range of multiples of forward-year earnings for the selected companies identified above. In performing this analysis, SG Barr Devlin made certain reductions (as discussed with management) in order to make more conservative the high level of growth forecasted for Pennichuck Water Service Corporation in years 2004 through 2007 and to reduce management's projected earnings and cash flows resulting from the assumed results of a rate case applicable to Pennichuck Water Works in 2006.

Utilizing this methodology, the per share equity value of Pennichuck (before adding the real estate value) ranged from:

\$21.86 to \$25.21 per share, based on the financial forecasts.

When adding the real estate value of \$2.89 per share (\$7 million total) to these per share values of Pennichuck's water businesses, the per share equity value of Pennichuck on a consolidated basis ranged from:

\$24.76 to \$28.10 per share, based on the financial forecasts.

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This implied value range for Pennichuck common stock does not give effect to a change of control premium, as compared to the equity value of \$33.00 per share implied by the exchange ratio and the closing price of PSC common stock on April 26, 2002.

In order to put the value of Pennichuck implied by the discounted cash flow analysis in the context of the proposed transaction, SG Barr Devlin performed a discounted cash flow valuation of the Estimated Synergies expected to arise out of the transaction. SG Barr Devlin assumed that \$1.0 million of pre-tax annual synergies (\$0.6 million after-tax) could be achieved for a 10-year period. Utilizing a standard 6.0% discount rate, the value of these synergies was \$4.4 million, or \$1.82 per share. Adding this value to the per share equity value range of Pennichuck implied by SG Barr Devlin's discounted cash flow analysis as stated above implies a per share value range of \$26.58 to \$29.92.

Pro Forma Analysis. SG Barr Devlin analyzed the potential effect of the proposed transaction on the projected combined income statement of operations of Pennichuck and PSC for the calendar years ending December 31, 2003 through 2006. This analysis was based upon (1) the projected financial forecasts of Pennichuck as presented by management and the Consensus Estimates for PSC; and (2) 2,391,439 shares and 85,395 vested stock options of Pennichuck outstanding and 68,486,101 shares of PSC common stock outstanding. SG Barr Devlin's pro forma earnings analysis took into account the effect of a possible \$1 million of pre-tax annual Estimated Synergies.

In addition, SG Barr Devlin performed a pro forma dividend analysis under various scenarios. Given Pennichuck's current annualized dividend per share of \$0.78 and PSC's then current annualized dividend of \$0.53, and assuming both companies were to grow their dividends at 5% per year, Pennichuck shareholders would experience a reduction in annual dividends of \$0.05 or 6.6% in the year ending December 31, 2003 and \$0.06 or 6.6% in the years ending December 31, 2004 through 2006, based on the exchange ratio and the closing price of PSC common stock on April 26, 2002.

The summary set forth above does not purport to be a complete description of all the analyses performed by SG Barr Devlin. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analyses and the application of these methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to partial analysis or summary description. SG Barr Devlin did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, notwithstanding the separate factors summarized above, SG Barr Devlin believes, and has so advised the Pennichuck board, that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without considering all analyses and factors, could create an incomplete view of the process underlying its opinion. In performing its analyses, SG Barr Devlin made numerous assumptions with respect to industry performance, business and economic conditions and other matters, many of which are beyond the control of Pennichuck and PSC. These analyses performed by SG Barr Devlin are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. In addition, analyses relating to the value of businesses do not purport to be appraisals or to reflect the prices at which businesses or securities may actually be sold. Accordingly, such analyses and estimates are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors. None of Pennichuck, PSC, SG Barr Devlin or any other person assumes responsibility if future results are materially different from those projected. The analyses supplied by SG Barr Devlin, and its opinion, were among several factors

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taken into consideration by the Pennichuck board in making its decision to enter into the merger agreement and should not be considered as determinative of such decision.

SG Barr Devlin was selected as Pennichuck's financial advisor because SG Barr Devlin and principals of SG Barr Devlin have significant experience in the investment banking and utility industries and because, as part of its investment banking business, SG Barr Devlin is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions. SG Barr Devlin is providing financial services for Pennichuck for which it will receive customary fees. In addition, in the ordinary course of its business, SG Barr Devlin and its affiliates may trade the equity securities of Pennichuck and PSC for their own account and for the accounts of their customers, and, accordingly, may at any time hold a long or short position in such securities. SG Barr Devlin and its affiliates in the ordinary course of business may have from time to time provided, and/or in the future may provide, commercial and investment banking services to Pennichuck and PSC, including serving as a financial advisor on potential acquisitions and as an underwriter on equity offerings, and have received and may in the future receive fees for the rendering of such services.

Pursuant to an engagement letter, SG Barr Devlin has received retainer fee payments totaling \$50,000, a fairness opinion fee of \$150,000 that was due upon delivery of the fairness opinion and a financial advisory progress payment of approximately \$890,000 (including expenses). In addition, if the merger is consummated, SG Barr Devlin will receive a transaction fee equal to 2.375% of the aggregate merger consideration up to \$62.5 million and 6.75% of the aggregate merger consideration in excess of \$62.5 million. That transaction fee, together with the amount of expenses to be reimbursed and the total payments previously made to SG Barr Devlin, may not exceed \$2.6 million. Based on the exchange ratio and the closing price of PSC common stock on [January 9, 2003,] the total transaction fee would be \$[2.2 million]. Subject to the limit set

forth above, Pennichuck has agreed to reimburse SG Barr Devlin for its out-of-pocket expenses, including attorneys' fees, and has agreed to indemnify SG Barr Devlin against certain liabilities, including liabilities under the federal securities laws. The terms of the engagement letter with SG Barr Devlin (and the fee arrangements contained therein), which are customary in transactions of this nature, were negotiated at arm's length between Pennichuck and SG Barr Devlin. The Pennichuck board was aware of the terms of the engagement letter, including the fact that a significant portion of the fee payable to SG Barr Devlin is contingent upon the completion of the transaction.

Interests of Certain Persons in the Merger; Differing Interests

When considering the recommendation of the Pennichuck board that Pennichuck shareholders vote in favor of the merger agreement, Pennichuck shareholders should be aware of the following agreements and other arrangements that provide Pennichuck executive officers and directors with interests in the merger that may be different from, or in addition to, the interests of Pennichuck shareholders as a whole. The Pennichuck board was aware of these interests as they existed on April 25, 2002, and considered them, among other factors, in approving the merger agreement and the merger.

Change of Control Agreement. Pennichuck has change of control agreements with each of Stephen J. Densberger, Executive Vice President; Charles J. Staab, Vice President, Treasurer and Chief Financial Officer; Bonalyn J. Hartley, Vice President, Administration; and Donald L. Ware, Vice President, Engineering. Generally, 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 a continuation of health and life insurance benefits for a twelve-month period upon the occurrence of both (a) a change of control and (b) termination of employment or substantial reduction or alteration in the executive's responsibility, authority or compensation for reasons other than good cause. The aggregate dollar value of such change of control benefits that the executive officers would receive if the provisions of the agreements are triggered is \$138,568 for Mr. Densberger, \$128,543 for Mr. Staab,

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\$115,710 for Ms. Hartley and \$119,712 for Mr. Ware. The agreements also grant these officers indemnification rights. Shareholder approval of the merger agreement will constitute a change of control for purposes of these agreements.

Employment Agreement and Additional Arrangements with Maurice L. Arel. Pennichuck has entered into an employment agreement with Maurice L. Arel, Pennichuck's President and Chief Executive Officer, which contains a change of control provision. In the event that Pennichuck terminates Mr. Arel's employment other than for cause or within six months of an event constituting a change of control, he will be entitled to a severance payment equal to two times his then current salary and fringe benefits. Although shareholder approval of the merger agreement will constitute a change of control for purposes of Mr. Arel's employment agreement, Mr. Arel intends to retire as President and Chief Executive Officer on the earlier of closing of the merger or June 30, 2003. If he retires, Mr. Arel will not receive any severance or change of control payment under his employment contract because his employment will not have been terminated by Pennichuck.

It is a condition to the closing of the merger that Mr. Arel, or another person mutually agreed upon by PSC and the Pennichuck board, be named as a director of PSC upon completion of the merger. Directors of PSC currently receive an annual retainer fee of \$12,000, plus an annual grant of 875 shares of PSC common stock. PSC directors also receive a fee of \$1,000 for attendance at each meeting of the board, including committee meetings.

Retention Bonuses. Pennichuck is considering payment of retention bonuses to each of Messrs. Arel, Densberger, Staab and Ware and to Ms. Hartley prior to closing but after the satisfaction of all the closing conditions. Each bonus will be in the sole discretion of the Compensation Committee and may be up to six months of such officer's base salary. As of the date of this proxy statement prospectus, the Compensation Committee has not yet determined the amount, if any, of the retention bonus for any of those officers. The aggregate amount of all bonuses paid is not to exceed \$350,000. The maximum amount of retention bonuses that the executive officers may receive is \$111,250 for Mr. Arel, \$62,546 for Mr. Densberger, \$57,600 for Mr. Staab, \$53,450 for Mr. Ware, and \$53,450 for Ms. Hartley.

Holders of Stock Options. The executive officers of Pennichuck have outstanding options to purchase an aggregate of 69,094 shares of Pennichuck common stock, which have a weighted average exercise price of \$21.956. All of the options are vested and are fully exercisable. These options will convert into options to acquire the same number of shares of PSC common stock as each optionholder would have been entitled to receive had the optionholder exercised such option immediately prior to the merger, as more fully described in "Treatment of Pennichuck Stock Options" on page 57.

Indemnification and Insurance. Under the merger agreement, PSC has agreed that, for a period of six years following the closing of the merger, the surviving corporation will indemnify and hold harmless each present and former director, officer and employee eligible for indemnification by Pennichuck and its subsidiaries or affiliates for any acts and omissions occurring prior to or at the completion of the merger, to the same extent authorized and permitted under the articles of incorporation and by-laws of Pennichuck or its applicable subsidiary in effect

on the date of the merger agreement. See "The Merger Agreement Material Covenants" on page 61.

PSC has also agreed, under the merger agreement, that it will provide liability insurance to those directors and officers currently covered by Pennichuck's liability insurance policy for a period of six years after the closing. The terms of such policy will be comparable to those of the Pennichuck policy in effect on the date of the merger agreement, provided that PSC will not be required to expend more than 250% of the amount paid by Pennichuck for such coverage under the policy in effect as of the date of the merger agreement.

Employees of Pennichuck after the Merger

By virtue of the merger, the employees of Pennichuck immediately prior to the merger will remain employees of Pennichuck after the merger. However, Pennichuck will be a wholly-owned subsidiary of PSC after the merger.

PSC has agreed for a period of at least two years to (i) maintain each Pennichuck employee plan, (ii) to arrange for Pennichuck employees to participate in the plans of PSC or its subsidiaries on the same basis that those plans are made available to employees of PSC or its subsidiaries, or (iii) establish and maintain a combination of other benefit plans and Pennichuck employee plans that, taken together, provide Pennichuck employees with benefits of substantially equal value to those they had prior to the merger. If PSC chooses either to arrange for Pennichuck employees to participate in PSC's plans or to establish or maintain a combination of other benefit plans and Pennichuck plans, then Pennichuck employees are to be given full credit for all service to Pennichuck prior to the merger for all purposes for which service was recognized under the Pennichuck employee plans including, but not limited to, eligibility to participate, vesting and, to the extent required by law, the amount of benefits. As permitted by PSC's third party insurance company or service providers and not prohibited by law, PSC will also cause all pre-existing condition limitations, eligibility waiting periods and evidence of insurability requirements under any of these other benefit plans to be waived.

Pennichuck's non-supervisory employees engaged in the water distribution and supply departments are represented by the United Steelworkers of America, AFL-CIO-CLC. Pennichuck Water Works, Inc., a wholly-owned subsidiary of Pennichuck, and the United Steelworkers recently negotiated a five-year collective bargaining agreement effective as of February 16, 2002. It is expected that the collective bargaining agreement will continue in full force and effect following the merger. The benefits given to the employees covered by the collective bargaining agreement will continue in accordance with the collective bargaining agreement unless the parties agree otherwise.

Utilities Regulation

Pennichuck's public utility subsidiaries, Pennichuck Water Works, Inc., Pennichuck East Utilities, Inc. and Pittsfield Aqueduct Company, Inc. are regulated by the New Hampshire Public Utilities Commission. On June 17, 2002, these subsidiaries applied to the New Hampshire Public Utilities Commission seeking approval of the acquisition of their control pursuant to the merger. Based upon a schedule approved by the Commission, Pennichuck and PSC expect the Commission will act on the application by February 28, 2003. The Commission staff submitted written testimony in December 2002 stating that it believed that the merger met the requisite regulatory standard for approval if certain conditions are met. Various municipalities and other parties that have intervened in the Commission's proceedings regarding the merger have publicly indicated that they intend to request that the Commission extend the schedule for issuing its decision on the Pennichuck application. The New Hampshire Public Utilities Commission has been asked to determine that the merger will not have an adverse effect on rates, terms, service, or operation of the utilities and is lawful, proper, and in the public interest. The New Hampshire Public Utilities Commission has, in prior cases, approved mergers where it has determined that there will be no net harm to the public as a result of the merger.

It is a condition to the closing of the merger that the New Hampshire Public Utilities Commission approval be obtained and that such regulatory approval not impose terms or conditions which could reasonably be expected to have a material adverse effect on Pennichuck after giving effect to the merger. The merger agreement may be terminated by either Pennichuck or PSC if the required regulatory approval is not obtained by March 31, 2003. The merger may not be completed unless and until the New Hampshire Public Utilities Commission approves the merger and the Commission's order becomes a "Final Order" within the meaning of the merger agreement. In general, the Commission's order will become final when it is no longer subject to modification or reversal as a result of

reconsideration by the Commission or an appeal. Any intervenor may file a motion for a rehearing within 30 days after the Commission issues its written decision; and any party whose rehearing request was denied then would have 30 days to file a notice of appeal with New Hampshire Supreme Court. Accordingly, even if the Commission were to approve PSC's application by February 28, 2003, it is possible that an intervenor could prevent the Commission's order from becoming a Final Order by March 31, 2003.

Hart-Scott-Rodino Premerger Notification

Pennichuck and PSC each made premerger notification filings on June 26, 2002 with the Federal Trade Commission as required by the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. The FTC granted early termination of the premerger notification waiting period in July 2002. If the merger is not completed by July 8, 2003, however, Pennichuck and PSC would have to make another filing with the FTC and would not be able to complete the merger until after the expiration or early termination of the waiting period.

Accounting Treatment

PSC will account for the acquisition of Pennichuck under the purchase method of accounting in accordance with generally accepted accounting principles. The purchase price will be allocated among Pennichuck's consolidated assets and liabilities based upon their estimated fair values. The excess of the purchase price over the fair value of Pennichuck's assets and liabilities will be allocated to goodwill in PSC's consolidated financial statements. This goodwill allocation will not be amortized but will be subject to review for impairment.

Dissenters' Rights

The following is a summary of Sections 13.01 through 13.31 of the New Hampshire Business Corporation Act, which sets forth the procedures for Pennichuck shareholders to object to the proposal to approve the merger agreement and demand statutory dissenters' rights. The full text of Sections 13.01 through 13.31 is attached hereto as Appendix B. Failure to follow those provisions exactly could result in the loss of your dissenters' rights. See "Material Federal Income Tax Consequences" on page 68 for a discussion of the tax consequences of exercising dissenters' rights.

Pennichuck shareholders who desire to exercise their dissenters' rights must satisfy each of the applicable conditions of Sections 13.01 through 13.31 of the New Hampshire Business Corporation Act. A written objection to the proposed merger agreement which states that the shareholder intends to demand payment for his, her or its shares must be delivered to Pennichuck before the vote on the merger agreement is taken at the special meeting. This written demand for payment must be in addition to, and separate from, any proxy vote abstaining from or voting against the merger agreement. Voting against, abstaining from voting or failing to vote with respect to the merger agreement alone will not constitute a demand for payment for purposes of New Hampshire law.

Pennichuck shareholders electing to exercise their dissenters' rights must not vote for approval of the merger agreement. Failure to vote against the merger will not constitute a waiver of rights under Sections 13.01 through 13.31, provided written notice has been properly delivered. If a shareholder returns a signed proxy but does not specify a vote against approval of the merger agreement or a direction to abstain, the proxy will be voted for the merger agreement, which will have the effect of waiving that shareholder's dissenters' rights.

A Pennichuck shareholder who elects to exercise dissenters' rights should deliver his, her or its written intent to demand payment to the Secretary of Pennichuck at the address set forth on page 3. The written intent to demand payment should specify the shareholder's name and mailing address, that

the Pennichuck shareholder objects to the proposal regarding the merger agreement and that he, she or it is demanding payment for his, her or its shares of Pennichuck stock.

Within 10 days after the merger is authorized by shareholder vote, Pennichuck must deliver a written dissenters' notice to each shareholder who has made a proper demand. The dissenters' notice must state where the actual payment demand is to be sent and where and when certificates for certificated shares shall be deposited. The dissenters' notice must also inform holders of uncertificated shares to what extent transfers of the shares are to be restricted after the payment demand is received and supply a form for demanding payment. The form for demanding payment requires that the person asserting the dissenters' rights certify whether or not he, she or it acquired beneficial ownership of the shares before April 29, 2002 (the date on which the proposed merger was announced). Pennichuck may choose to withhold payment from a dissenter who acquired his, her or its shares after that date. The notice will also set the payment demand date at no earlier than 30 days and no later than 60 days after the date the dissenters' notice is delivered and will be accompanied by a copy of relevant sections of the New Hampshire Business Corporation Act. If Pennichuck does not complete the merger within 60 days after the date set for demanding payment and depositing

share certificates, Pennichuck will return deposited certificates and release the transfer restrictions imposed on uncertificated shares. If Pennichuck then completes the merger, it will send a new dissenters' notice and repeat the payment demand procedure.

A Pennichuck shareholder who receives a dissenters' notice must then demand payment, certify whether or not he, she or it acquired beneficial ownership of the shares prior to April 29, 2002 and deposit his, her or its certificates in accordance with the terms of the notice. Pennichuck shareholders who demand payment and deposit their shares as required retain all other rights of a shareholder until those rights are canceled or modified by the consummation of the merger. Any shareholder who does not demand payment or deposit his, her or its share certificates where required by the date set in the dissenters' notice is not entitled to payment for his, her or its shares.

As soon as the merger is consummated, or upon receipt of a payment demand, whichever occurs later, Pennichuck will pay to each dissenting shareholder who has complied with the procedures described above the amount Pennichuck estimates to be the fair value of the dissenting shareholder's stock in cash, with accrued interest. The payment will be accompanied by (i) Pennichuck's balance sheet as of the end of Pennichuck's most recent fiscal year, an income statement for that year, a statement of changes in shareholders' equity for that year, and the latest available interim financial statements, if any; (ii) a statement of Pennichuck's estimation of the fair value of the shares; (iii) an explanation of how the amount of interest was calculated; (iv) a statement of the dissenter's right to further demand payment; and (v) a copy of the sections of the New Hampshire Business Corporation Act relating to dissenters' rights.

To the extent that Pennichuck chooses to withhold payment to shareholders who obtained beneficial ownership of their shares after the date set forth in the dissenters' notice, as soon as the merger is consummated, Pennichuck must estimate the fair value of the shares, plus accrued interest, and offer to pay this amount to each after-acquired shareholder who agrees to accept such payment in full satisfaction of his, her or its demand. The offer must be accompanied by a statement of the estimate of fair value of the shares, plus accrued interest, an explanation of how the amount of interest was calculated, and a statement of the dissenter's right to further demand payment if dissatisfied with the offer of payment.

A dissenting shareholder may either accept the amount that Pennichuck estimates to be the fair value for the shares or may notify Pennichuck of his, her or its own estimate of fair value and the amount of interest due and demand payment of his, her or its estimate, less any payment already received, or, in the case of shares beneficially acquired after the date set forth in the dissenters' notice, offered by Pennichuck, if any of the following occur: (i) he, she or it believes that the amount paid or

offered is less than fair value or the amount of interest due is incorrectly calculated; (ii) Pennichuck fails to make payment within 60 days of the date set for demanding payment; or (iii) Pennichuck does not return deposited certificates or release the transfer restrictions on uncertificated shares within 60 days of the date set for demanding payment. A dissenting shareholder who is dissatisfied with Pennichuck's payment or offer of payment must notify Pennichuck of his, her or its own estimate of fair value within 30 days of the receipt of the payment or offer of payment or his, her or its right to an adjusted payment is waived.

If Pennichuck and an objecting shareholder are unable to agree as to the value of the Pennichuck common stock within 60 days after the demand for payment was made, Pennichuck may commence a proceeding in the superior court of Hillsborough County for a judicial appraisal of the shares. If Pennichuck does not commence the action within the 60-day period, it must pay each dissenter whose demand remains unsettled the amount demanded.

Pennichuck must make all dissenters whose demands remain unsettled, whether or not they are residents of New Hampshire, parties to the proceeding as in an action against their shares. Pennichuck must serve all parties to the action with a copy of the petition. Nonresidents may be served by registered or certified mail, or by publication. The court may appoint one or more persons as appraisers to receive evidence and recommend decisions on the question of the shares' value. Each dissenter made a party to the action will be entitled to judgment for the amount, if any, by which the court finds the fair value of his, her or its shares, plus interest, exceeds the amount paid by Pennichuck or for the fair value, plus accrued interest, of after-acquired shares for which Pennichuck elected to withhold payment.

The court will determine all costs of the proceeding, including the reasonable compensation and expenses of court appointed appraisers, and will assess those costs against Pennichuck. However, the court may choose to assess costs and fees against any party it finds acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided under the statute. The court may also assess the fees and expenses of counsel and experts for the respective parties, in amounts the court finds equitable, against Pennichuck if the court finds that Pennichuck did not properly follow the requirements of the statute. If the court finds that counsel for any dissenter was of substantial service to other dissenters similarly situated and the court does not assess the fees for those services against Pennichuck, the court may award to the counsel reasonable fees paid out of the amounts awarded to the dissenters benefited.

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A shareholder entitled to dissent and obtain payment of his, her or its shares in this manner shall not challenge the corporate action authorizing the merger, unless the merger is illegal or fraudulent as to the shareholder or Pennichuck.

How to Surrender Your Shares and Receive the Merger Consideration in Exchange for Pennichuck Common Stock

Exchange Procedures. PSC will appoint Equiserve, L.P. to act as exchange and paying agent in the merger. Prior to the completion of the merger PSC will provide Equiserve with the authorization to reserve and issue the sufficient number of shares of PSC common stock which PSC will issue as merger consideration.

As soon as reasonably practicable after the merger, Equiserve will mail a letter of transmittal to e