UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

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

For Quarter Ended September 30, 2001

Commission File Number 1-6659

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

Pennsylvania	23-1702594
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania	19010 -3489
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (610)-527-8000

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

Yes X No ______

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 26, 2001 54,562,186

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)

Assets	September 30, 2001	December 31, 2000
	(Unaudited)	
Property, plant and equipment, at cost	$ 1,630,194	$ 1,536,162
Less accumulated depreciation	305,141	284,735
Net property, plant and equipment	1,325,053	1,251,427
Current assets:		
Cash and cash equivalents	1,135	4,575
Accounts receivable and unbilled revenues, net	60,586	51,223
Inventory, materials and supplies	4,821	4,352

Prepayments and other current assets	4,317	7,054
Total current assets	70,859	67,204
Regulatory assets	78,128	67,757
Deferred charges and other assets, net	21,937	24,148
Funds restricted for construction activity	13,635	3,474
	$ 1,509,612	$ 1,414,010
Liabilities and Stockholders' Equity		
Stockholders' equity:		
6.05% Series B cumulative preferred stock	$ 1,760	$ 1,760
Common stock at $.50 par value, authorized 100,000,000 shares, issued 55,403,310 and 54,520,300 in 2001 and 2000	27,702	27,260
Capital in excess of par value	304,260	291,013
Retained earnings	137,379	123,911
Minority interest	795	2,823
Treasury stock, 888,428 and 844,376 shares in 2001 and 2000	(16,415)	(15,346)
Accumulated other comprehensive income	726	926
Total stockholders' equity	456,207	432,347
Long-term debt, excluding current portion	513,636	468,769
Commitments	-	-
Current liabilities:		
Current portion of long-term debt	3,891	3,943
Loans payable	101,751	100,994
Accounts payable	13,285	20,635
Accrued interest	8,843	10,199
Accrued taxes	27,820	15,815
Dividends payable	9,143	-
Other accrued liabilities	18,692	21,597
Total current liabilities	183,425	173,183
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	159,158	151,718
Customers' advances for construction	59,778	58,718
Other	11,298	9,109
Total deferred credits and other liabilities	230,234	219,545
Contributions in aid of construction	126,110	120,166
	$ 1,509,612	$ 1,414,010

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

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)

(UNAUDITED)

	Nine Months Ended September 30,	
	2001	2000
Operating revenues	$ 232,159	$ 204,825
Costs and expenses:		
Operations and maintenance	81,642	74,315
Depreciation	28,361	23,956
Amortization	1,642	1,175
Taxes other than income taxes	15,488	17,039
Recovery of restructuring costs	-	(1,136)
	127,133	115,349
Operating income	105,026	89,476
Other expense (income):		
Interest expense, net	30,027	30,127

Allowance for funds used during construction	(865)	(2,260)
Gain on sale of other assets	(3,097)	(2,576)
Minority interest	-	76
Recovery of merger transaction costs	-	(2,905)
Income before income taxes	78,961	67,014
Provision for income taxes	31,085	26,584
Net income	47,876	40,430
Dividends on preferred stock	80	80
Net income available to common stock	$ 47,796	$ 40,350
Net income	$ 47,876	$ 40,430
Other comprehensive loss, net of tax	(200)	(390)
Comprehensive income	$ 47,676	$ 40,040
Net income per common share:		
Basic	$ 0.88	$ 0.79
Diluted	$ 0.87	$ 0.78
Average common shares outstanding during the period:		
Basic	54,188	51,351
Diluted	54,847	51,840

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

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)

(UNAUDITED)

	Three Months Ended September 30,	
	2001	2000
Operating revenues	$ 84,726	$ 72,123
Costs and expenses:		
Operations and maintenance	28,994	25,037
Depreciation	9,679	8,040
Amortization	497	517
Taxes other than income taxes	4,550	5,460
Recovery of restructuring costs	-	(740)
	43,720	38,314
Operating income	41,006	33,809
Other expense (income):		
Interest expense, net	9,861	10,282
Allowance for funds used during construction	(353)	(541)
Gain on sale of other assets	(188)	(1,213)
Minority interest	-	30
Recovery of merger transaction costs	-	(2,242)
Income before income taxes	31,686	27,493
Provision for income taxes	12,380	10,927
Net income	19,306	16,566
Dividends on preferred stock	27	27

Net income available to common stock	$ 19,279	$ 16,539
Net income	$ 19,306	$ 16,566
Other comprehensive income (loss), net of tax	(212)	120
Comprehensive income	$ 19,094	$ 16,686
Net income per common share:		
Basic	$ 0.35	$ 0.32
Diluted	$ 0.35	$ 0.32
Average common shares outstanding during the period:		
Basic	54,402	51,647
Diluted	55,075	52,189

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

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

	September 30, 2001	December 31, 2000
	(Unaudited)	
Stockholders' equity:		
6.05% Series B cumulative preferred stock	$ 1,760	$ 1,760
Common stock, $.50 par value	27,702	27,260
Capital in excess of par value	304,260	291,013
Retained earnings	137,379	123,911
Minority interest	795	2,823
Treasury stock	(16,415)	(15,346)
Accumulated other comprehensive income	726	926
Total stockholders' equity	456,207	432,347
Long-term debt:		
First Mortgage Bonds secured by utility plant:		
Interest Rate Range		
0.00% to 2.49%	8,378	4,368
2.50% to 4.99%	8,762	6,712
5.00% to 5.49%	36,919	6,667
5.50% to 5.99%	31,060	31,060
6.00% to 6.49%	160,525	145,570
6.50% to 6.99%	55,200	55,200
7.00% to 7.49%	60,000	62,007
7.50% to 7.99%	23,000	23,000
8.00% to 8.49%	17,603	16,621
8.50% to 8.99%	9,000	10,460
9.00% to 9.49%	53,615	53,615
9.50% to 9.99%	46,031	49,831
10.00% to 10.50%	6,000	6,167
Total First Mortgage Bonds	516,093	471,278
Installment note payable, 9%, due in equal annual payments through 2013	1,434	1,434
	517,527	472,712
Current portion of long-term debt	3,891	3,943
Long-term debt, excluding current portion	513,636	468,769
Total capitalization	$ 969,843	$ 901,116

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

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands of dollars)

(UNAUDITED)

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Cash flows from operating activities:		
Net income	$ 47,876	$ 40,430
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	30,003	25,131
Deferred income taxes	7,788	6,247
Gain on sale of other assets	(3,097)	(2,576)
Net increase in receivables, inventory and prepayments	(7,030)	(6,971)
Net decrease in payables, accrued interest, accrued taxes and other accrued liabilities	(11)	(7,830)
Payment of Competitive Transition Charge	(11,465)	-
Other	2,628	(4,951)
Net cash flows from operating activities	66,692	49,480
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of $865 and $2,260	(86,431)	(81,651)
Net increase in funds restricted for construction activity	(10,161)	-
Net proceeds from the sale (purchases) of other assets	3,971	3,131
Acquisitions of water and wastewater systems	(4,309)	(2,506)
Other	54	(3,426)
Net cash flows used in investing activities	(96,876)	(84,452)
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	2,476	4,937
Repayments of customers' advances	(3,064)	(2,691)
Net proceeds (repayments) of short-term debt	31,842	(22,519)
Proceeds from long-term debt	19,817	49,321
Repayments of long-term debt	(7,691)	(3,936)
Proceeds from issuing common stock	10,283	34,454
Repurchase of common stock	(1,575)	(3,543)
Dividends paid on preferred stock	(80)	(80)
Dividends paid on common stock	(25,186)	(22,161)
Other	(78)	174
Net cash flows from financing activities	26,744	33,956
Net decrease in cash and cash equivalents	(3,440)	(1,016)
Cash and cash equivalents at beginning of period	4,575	4,658
Cash and cash equivalents at end of period	$ 1,135	$ 3,642

See Acquisitions footnote for description of non-cash investing activities.

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

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Note 1 Basis of Presentation

The accompanying consolidated balance sheet and statement of capitalization of Philadelphia Suburban Corporation ("PSC") at September 30, 2001, the consolidated statements of income and comprehensive income for the nine months and quarter ended September 30, 2001 and 2000, and the consolidated statements of cash flow for the nine months ended September 30, 2001 and 2000, are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present fairly the consolidated financial position, the consolidated results of operations, and the consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the PSC Annual Report on Form 10-K for the year ended December 31, 2000 and the Quarterly Reports on Form 10-Q for the quarters ended June 30, 2001 and March 31, 2001. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year. Certain prior year amounts have been reclassified to conform with current year's presentation.

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

Note 2 Stockholders' Equity

On August 7, 2001, PSC's Board of Directors declared a 5-for-4 common stock split effected in the form of a 25% stock distribution for shareholders of record on November 16, 2001. The new shares will be distributed on December 1, 2001. PSC's par value of $.50 per share will not change as a result of the common stock distribution, and as a result, on the distribution date an amount will be transferred from Capital in Excess of Par Value to Common Stock to record the common stock split. The share and per share data contained in this Quarterly Report on Form 10-Q have not been restated to give effect to this stock distribution.

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

	2001	2000
Balance at January 1,	$ 926	$ 2,020
Unrealized gains (losses) on sales of marketable securities:		
Unrealized holding gain (loss) arising during the period, net of tax of $54 in 2001 and $100 in 2000	(98)	186
Less: reclassification adjustment for gains included in net income, net of tax of $54 in 2001 and $409 in 2000	(102)	(576)
Other comprehensive income (loss), net of tax	(200)	(390)
Balance at September 30,	$ 726	$ 1,630

Note 3 Long-term Debt and Loans Payable

In September 2001, our Ohio operating subsidiary issued $12,000 of tax-exempt bonds due in 2031 at a rate of 5.00%. During the first nine months of 2001, operating subsidiaries also issued $7,814 of long-term debt at varying rates of interest ranging from 0% to 3.24% and due at various times through 2031. The proceeds of these issues were used to reduce a portion of the balance of short-term debt. At September 30, 2001, the Trustees for three financing issues held $13,635 pending completion of the projects financed with the issues and are reported in the consolidated balance sheet as funds restricted for construction activity. In October 2001, Philadelphia Suburban Water Company ("PSW") issued a First Mortgage Bond of $15,000 6.21% Series due 2011. In November 2001, PSW issued $30,000 in First Mortgage Bonds 5.35% Series due 2031 as security for an equal amount of Bonds issued by the Delaware County Industrial Development Authority. The proceeds from the bonds issued in November 2001 are restricted to funding the costs of certain capital projects. As of the closing, project costs of $16,374 were already incurred and accordingly the Trustee transferred such amounts to PSW. The remainder of the proceeds are being held by the Trustee pending completion of the projects financed with this issue. As a result of the October and November issuances, $31,374 of the balance of loans payable has been classified as long-term debt as of September 30, 2001.

Note 4 Net Income per Common Share

Basic net income per common share is based on the weighted average number of common shares outstanding. Diluted net income per common share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock options is included in the computation of Diluted net income per common share. The following table summarizes the shares, in thousands, used in computing Basic and Diluted net income per common share:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2001	2000	2001	2000
Average common shares outstanding during the period for Basic computation	54,188	51,351	54,402	51,647
Dilutive effect of employee stock options	659	489	673	542
Average common shares outstanding during the period for Diluted computation	54,847	51,840	55,075	52,189

Note 5 Acquisitions

During the first nine months of 2001, sixteen acquisitions or growth ventures were completed in the various states in which the company operates. The total purchase price of $8,070 for the systems acquired consisted of $4,309 in cash and the issuance of 195,368 shares of PSC's common stock.

Note 6 Water Rates

PSC's Pennsylvania water utility subsidiaries filed an application with the Pennsylvania Public Utilities Commission on November 9, 2001 requesting a $28,000 or 13.4% increase in annual revenues. The application is currently pending before the PAPUC and a final determination is anticipated by August 2002. During the first nine months of 2001, Consumers Water Company ("CWC") operating subsidiaries were allowed rate increases designed to increase revenues by $4,799 on an annual basis, representing nine rate decisions in various states. Revenues from these rate increases realized in the first nine months of 2001 were approximately $2,985.

Note 7 Regulatory assets

The Pennsylvania Electricity Generation Customer Choice and Competition Act ("the Act") permitted electric distribution utilities to recover their stranded costs in the form of a Competitive Transition Charge ("CTC"). Consistent with the provisions of the Act, during the first quarter of 2001 Philadelphia Suburban Water Company negotiated and closed on the full pay off of its allocable share of CTC charges from its electric distribution company, PECO Energy Company. The $11,465 payment has been recorded as a regulatory asset and is expected to be recovered in future water rates over 10 years.

Note 8 Recent accounting pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," and in June 1999 amended this standard by issuing SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." In September 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," an amendment to SFAS No. 133. SFAS No. 138 establishes accounting and reporting standards for derivative instruments and for hedging activities and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 137 changed the timing of the implementation of SFAS No. 133. The adoption of these statements on January 1, 2001 did not have a material impact on our results of operations or financial condition. As of September 30, 2001, we had no derivative instruments or hedging activities.

In June 2001, the FASB approved SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. We intend to adopt SFAS No. 142 on or before January 1, 2002 as required, and this statement applies to all goodwill and other intangible assets recorded on our balance sheet at that date, regardless of when those assets were originally recorded. We are currently evaluating the provisions of this statement and have not yet determined the effect of adoption on our results of operations or financial position.

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

In August 2001, the FASB approved SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." We intend to adopt SFAS No. 144 on or before January 1, 2002 as required. We do not expect that the adoption of SFAS No. 144 will have an impact on our results of operations or financial position.

Forward-looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contains, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address, among other things: our use of cash; projected capital expenditures; liquidity; possible acquisitions and other growth ventures; as well as information contained elsewhere in this report where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans" or similar expressions. These statements are based on a number of assumptions concerning future events, and are subject to a number of uncertainties and other factors, many of which are outside our control. Actual results may differ materially from such statements for a number of reasons, including the effects of regulation, abnormal weather, changes in capital requirements and funding, and acquisitions. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

General Information

Philadelphia Suburban Corporation ("we" or "us"), a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to approximately 2 million people in Pennsylvania, Ohio, Illinois, New Jersey, Maine and North Carolina. Our two primary subsidiaries are Philadelphia Suburban Water Company ("PSW"), a regulated public utility that provides water or wastewater services to about 1.1 million residents in the suburban areas north and west of the City of Philadelphia, and Consumers Water Company ("CWC"), a holding company for several regulated public utility companies that provide water or wastewater service to about 850,000 residents in various communities in five states. Other subsidiaries provide water and wastewater services in parts of Pennsylvania, North Carolina and Ohio. We are among the largest investor-owned water utilities in the United States based on the number of customers. In addition, we provide water and wastewater service to approximately 35,000 people through operating and maintenance contracts with municipal authorities and other parties close to our operating companies' service territories. Some of our subsidiaries provide wastewater collection, treatment, and disposal services (primarily residential) to approximately 40,000 people in Pennsylvania, Illinois, New Jersey and North Carolina.

Financial Condition

During the first nine months of 2001, we had $86,431 of capital expenditures, acquired water and wastewater systems for $4,309, repaid $2,928 of customer advances for construction and made sinking fund contributions and other loan repayments of $7,691. The capital expenditures were related to new water mains and customer service lines, the rehabilitation of existing water mains, hydrants and customer service lines, in addition to treatment plant, well and booster improvements.

During the first nine months of 2001, the proceeds from the issuance of long-term debt, proceeds from the issuance of common stock, internally generated funds, available working capital and funds available under our revolving credit agreement and other credit facilities were used to fund the cash requirements discussed above and to pay dividends. In September 2001, our Ohio operating subsidiary issued $12,000 of tax-exempt bonds due in 2031 at a rate of 5.00%. During the nine months, operating subsidiaries also issued $9,672 of long-term debt at varying rates of interest ranging from 0% to 3.24% and due at various times through 2031. The proceeds of these issues were used to reduce a portion of the balance of short-term debt at each of the respective operating subsidiaries. Effective with the December 1, 2001 payment, PSC has increased the quarterly cash dividend on common stock from $.155 per share to $.1656 per share on a pre-split basis.

At September 30, 2001, we had short-term lines of credit of $190,019, of which $56,894, was available.

The Pennsylvania Electricity Generation Customer Choice and Competition Act ("the Act") permitted electric distribution utilities to recover their stranded costs in the form of a Competitive Transition Charge ("CTC"). Consistent with the provisions of the Act, during the first quarter of 2001 Philadelphia Suburban Water Company negotiated and closed on the full pay off of its allocable share of CTC charges from its electric distribution company, PECO Energy Company. The $11,465 payment has been recorded as a regulatory asset and is expected to be recovered in future water rates over 10 years.

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

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

Results of Operations

Analysis of First Nine Months of 2001 Compared to First Nine Months of 2000

Revenues for the first nine months of 2001 increased $27,334 or 13.3% primarily due to increased water rates, particularly as a result of the April 2000 Pennsylvania rate settlement, an increase in water consumption and additional water and wastewater revenues associated with acquisitions. The increase in water consumption is associated with the relatively warmer, drier weather experienced in the second and third quarters of 2001 as compared to 2000 in Pennsylvania, New Jersey and Ohio. The additional revenues associated with acquisitions are a result of the larger customer base.

Operations and maintenance expenses increased by $7,327 or 9.9% due to the additional operating costs associated with acquisitions, increased water production expenses associated with the higher water consumption, increased wage and benefit costs, and increased insurance expense, offset partially by reduced maintenance costs. The reduction in maintenance costs are a result of the relatively mild winter weather experienced in 2001 as compared to 2000.

Depreciation expense increased $4,405 or 18.4% reflecting the utility plant placed in service since the third quarter of 2000, including the assets acquired through system acquisitions.

Amortization increased $467 primarily due to the amortization of the costs associated with, and other costs being recovered in, various rate filings.

Taxes other than income taxes decreased by $1,551 or 9.1% due to a reduction in state and local taxes and a decrease in the Pennsylvania Capital Stock Tax. The decrease in state and local taxes is a result of a reduction in the current year tax assessment and a reduction in the tax assessment for a prior year period resulting in a refund being received in 2001. The Pennsylvania Capital Stock Tax decreased due to a reduction in the tax rate.

The recovery of restructuring costs of $1,136 in the first nine months of 2000 resulted from the April 2000 rate settlement. These costs were charged off in 1999 when the CWC merger was completed.

Interest expense decreased by $100 or 0.3% primarily due to decreased interest rates on short-term borrowings, offset partially by increased borrowings to finance on-going capital projects.

Allowance for funds used during construction decreased by $1,395 primarily due to a decrease in the average balance of utility plant construction work in progress and a decrease in the AFUDC rate which is based on short-term interest rates. The decrease in the average balance of utility plant construction work in progress resulted from the completion of the construction of a $35,000 water treatment plant at one of the operating subsidiaries. Construction commenced on this facility in December 1997 and was completed in the third quarter of 2000.

Gain on sale of other assets was $3,097 in the first nine months of 2001 and $2,576 in the same period of 2000. The change is a result of an increase in gains recognized on land sales of $1,427, offset partially by a decrease in gains of marketable securities of $906.

The recovery of merger transaction costs of $2,905 in the first nine months of 2000 resulted from the April 2000 rate settlement. These costs were charged off in 1999 when the CWC merger was completed.

Our effective income tax rate was 39.4% in the first nine months of 2001 and

39.7% in the first nine months of 2000. The change is due to a difference between tax deductible expenses and book expenses.

Net income available to common stock for the first nine months of 2001 increased by $7,446 or 18.5%, in comparison to 2000 primarily as a result of the factors described above. On a diluted per share basis, earnings increased $.09 or 11.5% reflecting the change in net income and a 5.8% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the 1,653,125 share stock offering in September 2000, additional shares sold or issued through the dividend investment plan, employee stock and incentive plan, and shares issued in connection with acquisitions.

Results of Operations

Analysis of Third Quarter of 2001 Compared to Third Quarter of 2000

Revenues for the quarter increased $12,603 or 17.5% primarily as a result of an increase in water consumption, the increased water rates granted to the operating subsidiaries, and additional water and wastewater revenues associated with acquisitions. The increase in water consumption is associated with the relatively warmer, drier weather experienced in the third quarter of 2001 as compared to 2000. The 2000 weather patterns were generally cooler and wetter than normal in Pennsylvania and Ohio. The increased water rates are primarily associated with the rate increases granted in Illinois, New Jersey and Ohio. The additional water and wastewater revenues associated with acquisitions are a result of the larger customer base.

Operations and maintenance expenses increased by $3,957 or 15.8% primarily due to the additional operating costs associated with acquisitions, increased water production expenses associated with the higher water consumption, higher insurance expense, increased wage and benefit costs, and higher bad debt expense. Bad debt expense increased as a result of account collection slowing, believed to be due to a change in general economic conditions in portions of our service territories.

Depreciation expense increased $1,639 or 20.4% reflecting the utility plant placed in service since the third quarter of 2000, including the assets acquired through system acquisitions.

Amortization decreased $20 or 3.9% primarily due to the completion of the amortization of the costs associated with, and other costs being recovered in, various rate filings.

Taxes other than income taxes decreased by $910 or 16.7% due to a reduction in state and local taxes and a decrease in the Pennsylvania Capital Stock Tax. The decrease in state and local taxes is a result of a reduction in the tax assessment for a prior year period resulting in a refund being received in the third quarter of 2001 and a reduction in the current year tax assessment. The Pennsylvania Capital Stock Tax decreased due to a reduction in the tax rate.

The recovery of restructuring costs of $740 in the third quarter of 2000 resulted from the April 2000 rate settlement. These costs were charged off in 1999 when the CWC merger was completed.

Interest expense decreased by $421 or 4.1% primarily due to decreased interest rates on borrowings, offset partially by additional borrowings to finance on-going capital projects.

Allowance for funds used during construction ("AFUDC") decreased by $188 primarily due to a decrease in the average balance of utility plant construction work in progress and a decrease in the AFUDC rate which is based on short-term interest rates. The decrease in the average balance of utility plant construction work in progress resulted from the completion of the construction of a $35,000 water treatment plant at one of the operating subsidiaries in the third quarter of 2000.

Gain on sale of other assets was $188 in the third quarter of 2001 and $1,213 in the third quarter of 2000. The change is a result of a decrease in the gains recognized on land sales of $1,125, offset partially by an increase in gains of marketable securities of $100.

The recovery of merger transaction costs of $2,242 in the third quarter of 2000 resulted from the April 2000 rate settlement. These costs were charged off in 1999 when the CWC merger was completed.

Our effective income tax rate was 39.1% in the third quarter of 2001 and 39.7% in the third quarter of 2000. The change is due to a difference between tax deductible expenses and book expenses.

Net income available to common stock for the third quarter of 2001 increased by $2,740 or 16.6%, in comparison to 2000 primarily as a result of the factors described above. On a diluted per share basis, earnings increased $.03 or 9.4% reflecting the change in net income and a 5.5% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the additional shares sold or issued through the dividend reinvestment plan, employee stock and incentive plan, shares issued in connection with the stock acquisitions, and the 1,653,125 share stock offering in September 2000.

Recent Events

Security - In light of recent concerns regarding security in the wake of the September 11, 2001 terrorist attacks, PSC has increased security measures at its facilities. These increased security measures were not made in response to any specific threat. PSC and its operating subsidiaries are in contact with federal, state and local authorities and industry trade associations regarding current information on possible threats and security measures for water utility operations. The cost of the increased security measures is expected to be fully recoverable in water rates and is not expected to have a material impact on our results from operations or financial condition.

Water supplies - Our utility customers are located in six states and as of September 30, 2001, 57% were located in Southeastern Pennsylvania. In November 2001, the Governor of the Commonwealth of Pennsylvania declared a drought warning for nine counties in Pennsylvania, including one of the five counties we serve, and a drought watch for ten counties, including three of the other counties we serve, in Southeastern Pennsylvania. A drought warning calls for a 10 to 15 percent voluntary reduction of water use, particularly non-essential uses of water, and a drought watch calls for a five percent voluntary reduction of water use. Our water supplies remain adequate at this time. Because the drought warning declaration was issued in the fall, when nonessential and recreational uses of water are traditionally already low, this action is not expected to have a significant impact on water revenues.

Impact of Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," and in June 1999 amended this standard by issuing SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." In September 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative

Instruments and Certain Hedging Activities," an amendment to SFAS No. 133. SFAS No. 138 establishes accounting and reporting standards for derivative instruments and for hedging activities and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 137 changed the timing of the implementation of SFAS No. 133. The adoption of these statements on January 1, 2001 did not have a material impact on our results of operations or financial condition. As of September 30, 2001, we had no derivative instruments or hedging activities.

In June 2001, the FASB approved SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. We intend to adopt SFAS No. 142 on or before January 1, 2002 as required, and this statement applies to all goodwill and other intangible assets recorded on our balance sheet at that date, regardless of when those assets were originally recorded. We are currently evaluating the provisions of this statement and have not yet determined the effect of adoption on our results of operations or financial position.

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

In August 2001, the FASB approved SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." We intend to adopt SFAS No. 144 on or before January 1, 2002 as required. We do not expect that the adoption of SFAS No. 144 will have an impact on our results of operations or financial position.

Part II. Other Information

Item 1. Legal Proceedings

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

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

SIGNATURE

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

November 13, 2001

PHILADELPHIA SUBURBAN CORPORATION

Registrant

/s/ Nicholas DeBenedictis

Nicholas DeBenedictis
Chairman and President

/s/ David P. Smeltzer

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