FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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PENNICHUCK CORP

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2011

or

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

For the transition period from __________ to __________

0-18552
(Commission File Number)

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

New Hampshire	**02-0177370**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

25 Manchester Street, Merrimack, New Hampshire 03054
(Address and zip code of principal executive offices)

(603) 882-5191
(Registrant' s telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☑ Yes ☐ No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer' s classes of common stock, as of the latest practicable date:

Common Stock, $1 Par Value, 4,690,329 shares outstanding as of November 1, 2011

PENNICHUCK CORPORATION AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
September 30, 2011

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PART I. FINANCIAL INFORMATION (Unaudited)

ITEM 1. FINANCIAL STATEMENTS

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands, except share data)

	As of	
	September 30, 2011	December 31, 2010
ASSETS		
Property, Plant and Equipment, net	$ 159,638	$ 158,796
Current Assets:		
Cash and cash equivalents	4,477	2,383
Accounts receivable, net of allowance of $48 as of September 30, 2011 and $54 as of December 31, 2010	2,420	2,153
Unbilled revenues	4,326	2,389
Materials and supplies	762	743
Deferred and refundable income taxes	49	717
Prepaid expenses	580	1,307
Total Current Assets	12,614	9,692
Other Assets:		
Deferred land costs	2,528	2,497
Deferred charges and other assets	9,920	10,502
Investment in real estate partnership	112	114
Total Other Assets	12,560	13,113
TOTAL ASSETS	$ 184,812	$ 181,601

See notes to condensed consolidated financial statements

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

	As of	
	September 30, 2011	**December 31, 2010**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' Equity:		
Common stock − $1 par value; Authorized - 11,500,000 shares in 2011 and 2010; Issued − 4,690,237 and 4,677,105 shares, respectively; Outstanding − 4,689,035 and 4,675,903 shares, respectively	$4,690	$4,677
Additional paid in capital	41,573	41,312
Retained earnings	11,855	10,488
Accumulated other comprehensive loss	(492)	(189)
Treasury stock, at cost; 1,202 shares in 2011 and 2010	(138)	(138)
Total Shareholders' Equity	57,488	56,150
Preferred stock, $100 par value, 15,000 shares authorized; and, no par value, 100,000 shares authorized, no shares issued in 2011 and 2010	–	–
Long-term Debt, Less Current Portion	59,116	59,666
Current Liabilities:		
Current portion of long-term debt	1,073	1,053
Accounts payable	1,018	1,972
Accrued interest payable	349	701
Accrued wages and payroll withholding	495	565
Accrued liability − retainage	136	178
Other current liabilities	406	406
Total Current Liabilities	3,477	4,875
Deferred Credits and Other Reserves:		
Deferred income taxes	21,400	19,180
Other deferred credits and other reserves	10,396	9,846
Total Deferred Credits and Other Reserves	31,796	29,026
Contributions in Aid of Construction	32,935	31,884
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	$184,812	$181,601

See notes to condensed consolidated financial statements

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)
(in thousands, except share and per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Operating Revenues	$11,901	$11,765	$30,214	$28,294
Operating Expenses:				
Operations and maintenance	4,918	4,980	14,054	13,817
Depreciation and amortization	1,049	1,049	3,147	3,152
Taxes other than income taxes	1,065	974	3,304	2,877
Total Operating Expenses	7,032	7,003	20,505	19,846
Operating Income	4,869	4,762	9,709	8,448
Eminent Domain and Merger-related Costs	(99)	(159)	(672)	(392)
Net Loss from Investment Accounted for Under the Equity Method	(1)	(2)	(5)	(5)
Other Expense, Net	(1)	(1)	(19)	(1)
Allowance for Funds Used During Construction	–	4	4	14
Interest Income	–	1	–	2
Interest Expense	(831)	(841)	(2,449)	(2,528)
Income Before Provision for Income Taxes	3,937	3,764	6,568	5,538
Provision for Income Taxes	1,560	1,491	2,602	2,194
Net Income	2,377	2,273	3,966	3,344
Other Comprehensive Loss, Net of Tax:				
Unrealized loss on derivatives	(285)	(105)	(304)	(385)
Comprehensive Income	$2,092	$2,168	$3,662	$2,959
Earnings per Common Share:				
Basic	$0.51	$0.49	$0.85	$0.72
Diluted	$0.50	$0.48	$0.83	$0.71
Weighted Average Common Shares Outstanding:				
Basic	4,685,170	4,660,077	4,682,220	4,657,404
Diluted	4,759,575	4,696,338	4,755,818	4,685,389
Dividends Paid per Common Share	$0.185	$0.180	$0.555	$0.540

See notes to condensed consolidated financial statements

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	For the Nine Months Ended September 30, 2011	2010
Operating Activities:		
Net income	$3,966	$3,344
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,311	3,320
Amortization of deferred investment tax credits	(25)	(25)
Provision for deferred income taxes	2,423	447
Equity component of allowance for funds used during construction	(2)	(7)
Undistributed loss in real estate partnership	5	5
Stock-based compensation expense	87	207
Changes in assets and liabilities	(1,460)	366
Net cash provided by operating activities	8,305	7,657
Investing Activities:		
Purchases of property, plant and equipment, including debt component of allowance for funds used during construction	(3,200)	(4,959)
Increase in investment in real estate partnership and deferred land costs	(34)	(17)
Net cash used in investing activities	(3,234)	(4,976)
Financing Activities:		
Payments on long-term debt	(1,289)	(6,190)
Contributions in aid of construction	5	215
Proceeds from long-term borrowings	750	5,602
Debt issuance costs	(31)	(43)
Proceeds from issuance of common stock	187	181
Dividends paid	(2,599)	(2,515)
Net cash used in financing activities	(2,977)	(2,750)
Increase (decrease) in cash and cash equivalents	2,094	(69)
Cash and cash equivalents, beginning of period	2,383	1,570
Cash and cash equivalents, end of period	$4,477	$1,501

Supplemental disclosure on cash flow and non-cash items for the nine months ended September 30, 2011 and 2010 is presented below.

	For the Nine Months Ended September 30, 2011	2010
Cash paid (refunded) during the period for:		
Interest	$2,628	$2,788
Income taxes	$(438)	$718
Non-cash items:		
Contributions in aid of construction	$1,573	$179

See notes to condensed consolidated financial statements

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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

Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The condensed consolidated balance sheet amounts shown under the December 31, 2010 column have been derived from the audited financial statements of our Company as contained in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission ("SEC").

Description of Business:

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

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

Acquisition of Company:

On November 11, 2010, the City of Nashua (the "City") and the Company entered into a definitive merger agreement (the "Merger Agreement") pursuant to which the City will, subject to a number of conditions precedent and contingencies, purchase all of the outstanding common stock and common stock equivalents of Pennichuck Corporation for $29.00 per share, or approximately $138 million, in cash. Pursuant to the terms of a Settlement Agreement that was entered into contemporaneously with the Merger Agreement, the Company and the City have agreed that this transaction constitutes full settlement of their eminent domain dispute.

The Shareholders of the Company approved the Merger Agreement at a Special Shareholder Meeting on June 15, 2011.

The merger is subject to approval by the NHPUC. The City' s obligation to complete the transaction is subject to (a) there being no approval conditions imposed by the NHPUC that would materially adversely affect the City' s expected economic benefits from the transaction, and (b) the City' s ability to obtain appropriate financing after all other conditions precedent have been met.

Relating to NHPUC approval of the proposed merger with the City, on October 18, 2011, the Company, the City, the NHPUC Staff and certain other parties entered into and filed with the NHPUC a Settlement Agreement (the “2011 Settlement Agreement”) in which they recommended that the NHPUC approve the merger. The final hearing before the NHPUC was held on October 25, 2011 and all parties are now awaiting the ruling of the NHPUC. The NHPUC’ s ruling is subject to appeal during the 30-day period following its issuance; thereafter, if no appeal is filed, it becomes final.

Additionally, under the terms of the Merger Agreement, the City, in effect, has 90 days after the NHPUC ruling becomes final to complete the financing. Therefore, while the merger could possibly be completed by December 31, 2011, we believe that if the NHPUC approves the merger, it is more likely to be completed in the first quarter of 2012.

Summary of Significant Accounting Policies:

(a) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-Q and Regulation S-X of the SEC. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring and non-recurring adjustments) considered necessary for a fair presentation have been included.

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

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

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

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(c) Property, Plant and Equipment

The components of property, plant and equipment as of September 30, 2011 and December 31, 2010 were as follows:

	As of	
(in thousands)	September 30, 2011	December 31, 2010
Utility Property:		
Land and land rights	$2,946	$2,994
Source of supply	49,449	49,304
Pumping & purification	28,413	28,072
Transmission & distribution, including Services, meters and hydrants	112,874	109,817
General and other equipment	9,853	9,496
Intangible plant	759	747
Construction work in progress	993	684
Total utility property	205,287	201,114
Total non-utility property	5	5
Total property, plant & equipment	205,292	201,119
Less accumulated depreciation	(45,654)	(42,323)
Property, plant and equipment, net	$159,638	$158,796

(d) Cash and Cash Equivalents

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

(e) Concentration of Credit Risks

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

(f) Deferred Charges and Other Assets

Deferred charges include certain regulatory assets and costs of obtaining debt financing. Regulatory assets are amortized over the periods they are recovered through NHPUC-authorized water rates. Deferred financing costs are amortized over the term of the related bonds and notes. Our Company' s utility subsidiaries have recorded certain regulatory assets in cases where the NHPUC has permitted, or is expected to permit, recovery of these costs over future periods. Currently, the regulatory assets are being amortized over periods ranging from four to 25 years. Deferred charges and other assets as of September 30, 2011 and December 31, 2010 consisted of the following:

(in thousands)	As of September 30, 2011	 December 31, 2010	Recovery Period
Regulatory assets:			
Source development charges	$890	$932	5 - 25
Miscellaneous studies	537	681	4 - 25
Sarbanes-Oxley costs	98	244	5
Unrecovered pension and post-retirement benefits expense	3,822	3,960	①
Total regulatory assets	5,347	5,817	
Franchise fees and other	–	7	
Supplemental executive retirement plan asset	690	636	
Deferred financing costs	3,883	4,042	
Total deferred charges and other assets	$9,920	$10,502	

① We expect to recover the deferred pension and other post-retirement amounts consistent with the anticipated expense recognition of the pension and other post-retirement costs.

(g) Revenues

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

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

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

(h) Earnings Per Share

Basic net income per share is computed using the weighted average number of common shares outstanding for a period. Diluted net income per share is computed using the weighted average number of common and dilutive potential common shares outstanding for the period. For the three and nine months ended September 30, 2011 and 2010, dilutive potential common shares consisted of outstanding stock options.

The dilutive effect of outstanding stock options is computed using the treasury stock method. Calculations of the basic and diluted net income per common share and potential common share for the three and nine months ended September 30, 2011 and 2010 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except share and per share data)	2011	2010	2011	2010
Basic net income per share	$0.51	$0.49	$0.85	$0.72
Dilutive effect of unexercised stock options	(0.01)	(0.01)	(0.02)	(0.01)
Diluted net income per share	$0.50	$0.48	$0.83	$0.71
Numerator:				
Net income	$2,377	$2,273	$3,966	$3,344
Denominator:				
Basic weighted average common shares outstanding	4,685,170	4,660,077	4,682,220	4,657,404
Dilutive effect of unexercised stock options	74,405	36,261	73,598	27,985
Diluted weighted average common shares outstanding	4,759,575	4,696,338	4,755,818	4,685,389

The following table lists the number of options to purchase shares of common stock that was not included in the computation of diluted earnings per share for the three and nine months ended September 30, 2011 and 2010 because their effect would have been antidilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Number of options to purchase shares of common stock excluded from the computation of diluted earnings per share	–	–	–	34,200

(i) Interest Rate Swap

As of September 30, 2011, we had an interest rate swap that qualifies as a derivative. This financial instrument is designated as a cash flow hedge and is used to mitigate interest rate risk associated with our outstanding $4.3 million loan that has a floating interest rate based on the three-month London Interbank Offered Rate (“LIBOR”) plus 1.75% as of September 30, 2011. The combined effect of the LIBOR-based borrowing formula and the swap produces an “all-in fixed borrowing cost” equal to 5.95%. The fair value of this derivative, as of September 30, 2011 and December 31, 2010, included in our condensed consolidated balance sheet under “Other deferred credits and other reserves” was $820,000 and $314,000, respectively. Changes in the fair value of this derivative were deferred in accumulated other comprehensive loss.

Swap settlements are recorded in the income statement with the hedged item as interest expense. During the three months ended September 30, 2011 and 2010, $43,000 and $43,000, respectively, was reclassified from accumulated other comprehensive loss to interest expense as a result of swap settlements. During the nine months ended September 30, 2011 and 2010, $128,000 and $102,000, respectively, was reclassified from accumulated other comprehensive loss to interest expense as a result of swap settlements. We expect to reclassify approximately $161,000 from accumulated other comprehensive loss to interest expense as a result of swap settlements, over the next twelve months.

(j) Recently Issued Accounting Standards

On May 12, 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, "*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and IFRSs.*" This ASU represents the converged guidance of the FASB and the International Accounting Standards Board (the "Boards") on fair value measurement. The collective efforts of the Boards have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements. The amendments are effective for public entities for interim and annual periods beginning after December 15, 2011, and should be applied prospectively. Early adoption is not permitted for public entities; therefore, we currently expect to adopt this standard in the first quarter of 2012. We are currently reviewing the effect this new pronouncement will have on our consolidated financial statements.

On June 16, 2011, the FASB issued ASU No. 2011-05, "*Comprehensive Income (Topic 220): Presentation of Comprehensive Income.*" This ASU amends the ASC to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single statement of comprehensive income or in two separate but consecutive statements. The amendments are effective for public entities for interim and annual periods beginning after December 15, 2011, and should be applied retrospectively. Early adoption is permitted for public entities. We currently expect to adopt this standard in the fourth quarter of 2011. We are currently reviewing the effect this new pronouncement will have on our consolidated financial statements.

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

Note 2 − Post-retirement Benefit Plans

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

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

Upon retirement, if a qualifying employee elects to receive benefits, we pay up to a maximum monthly benefit of $293 based on eligibility and years of service.

During the three and nine months ended September 30, 2011 and 2010, we made the following contributions to the DB Plan:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2011	2010	2011	2010
Amount of contribution to the Plan	$494	$134	$837	$380

In order to satisfy the minimum funding requirements of the Employee Retirement Income Security Act of 1974, we anticipate that we will contribute approximately $1.0 million to the DB Plan in 2011.

The components of net DB Plan costs were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2011	2010	2011	2010
Service cost, benefits earned during the period	$171	$164	$512	$492
Interest cost on projected benefit obligation	165	155	494	464
Expected return on plan assets	(135)	(124)	(403)	(372)
Recognized net actuarial loss	42	42	127	127
Net periodic benefit cost	$243	$237	$730	$711

During the three and nine months ended September 30, 2011 and 2010, we made the following contributions to the OPEB Plans.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2011	2010	2011	2010
Amount of contribution into the program	$14	$10	$39	$31

The components of net OPEB Plans costs were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2011	2010	2011	2010
Service cost, benefits earned during the period	$30	$32	$91	$95
Interest cost on accumulated post-retirement and post-employment benefit obligation	35	35	104	104
Expected return on plan assets	(14)	(13)	(42)	(37)
Amortization of prior service cost	5	–	15	–
Recognized net actuarial loss	(2)	5	(6)	16
Net periodic benefit cost	$54	$59	$162	$178

The net periodic pension and other post-retirement benefit costs were estimated based on 2010 year end participant census data.

Note 3 − Stock-based Compensation Plan

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

The impact of stock-based compensation on the condensed consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2011 and 2010 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2011	2010	2011	2010
Stock-based compensation	$24	$32	$87	$207
Income taxes	(10)	(13)	(35)	(83)
Stock-based compensation, net of tax	$14	$19	$52	$124

The total compensation cost related to non-vested stock option awards was approximately $46,000, net of tax, as of September 30, 2011. These costs are expected to be recognized during the remainder of 2011 through 2013.

We have periodically granted our officers and key employees incentive and non-qualified stock options on a discretionary basis pursuant to the 2009 Equity Incentive Plan (the "2009 Plan"); however, during the term of the Merger Agreement, we are not permitted to issue options or other forms of equity.

Options issued under the 2009 Plan during the three and nine months ended September 30, 2011 and 2010 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Options issued under the 2009 Plan	–	–	–	71,900

As of September 30, 2011, 111,934 shares were available for future grant under the 2009 Plan.

Note 4 − Commitments and Contingencies

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

In 2002, the City of Nashua (the "City") began an effort to acquire all or a significant portion of Pennichuck Water' s assets through an eminent domain proceeding under New Hampshire Revised Statutes Annotated Chapter 38, as well as the assets of the Company' s Pennichuck East and Pittsfield Aqueduct utility subsidiaries. As discussed in Note 1, "Description of Business, Acquisition of Company and Summary of Significant Accounting Policies" in Part I, Item I, in this Quarterly Report on Form 10-Q, on November 11, 2010, we entered into a Merger Agreement with the City pursuant to which the City will, subject to a number of conditions precedent and contingencies, purchase all the outstanding common stock and common stock equivalents of Pennichuck Corporation for $29.00 per share. Concurrently, we and the City also agreed to terminate the current eminent domain proceeding as of the end of the term of the Merger Agreement and regardless of whether the merger is ultimately completed.

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

We entered into an agreement in April 2002 to be acquired by Aqua America, Inc. (then named Philadelphia Suburban Corporation) by merger. The merger was subject to several conditions, including approval by our shareholders and approval by the NHPUC.

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

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

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

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

On November 11, 2010, the City and the Company entered into a Merger Agreement pursuant to which the City will, subject to a number of conditions precedent and contingencies, purchase all of the outstanding common stock and common stock equivalents of the Company for $29.00 per share, or approximately $138 million, in cash. On January 11, 2011, the City's Board of Aldermen voted 14 − 1 to approve and ratify the Merger Agreement and the issuance of bonds to finance the acquisition.

The shareholders of the Company approved the Merger Agreement at a Special Shareholder Meeting held on June 15, 2011.

The consummation of the merger is also subject to approval by the NHPUC. If the NHPUC approves the merger, the City' s obligation to complete the transaction is subject to (a) there being no burdensome approval conditions imposed by the NHPUC that would materially adversely affect the City' s expected economic benefits from the transaction and (b) the City' s ability to obtain appropriate financing after all the conditions precedent (including those specified above and other customary closing conditions) have been met.

Relating to NHPUC approval of the proposed merger with the City, on October 18, 2011, the Company, the City, the NHPUC Staff and certain other parties entered into and filed with the NHPUC the 2011 Settlement Agreement in which they recommended that the NHPUC approve the merger. The final hearing before the NHPUC was held on October 25, 2011 and all parties are now awaiting the ruling of the NHPUC. The NHPUC' s ruling is subject to appeal during the 30-day period following its issuance; thereafter, if no appeal is filed, it becomes final.

Additionally, under the terms of the Merger Agreement, the City, in effect, has 90 days after the NHPUC ruling becomes final to complete the financing. Therefore, while the merger could possibly be completed by December 31, 2011, we believe that if the NHPUC approves the merger, it is more likely to be completed in the first quarter of 2012.

Other Eminent Domain Proceedings

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

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

Our Company cannot predict the ultimate outcome of these matters.

Note 5 − Business Segment Reporting

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

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

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

The line titled "Other" is not a reportable segment and is shown only to reconcile to the total amounts shown in our condensed consolidated financial statements. The following table presents information about our primary business segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2011	2010	2011	2010
Operating revenues:				
Regulated water utility operations	$11,213	$11,118	$28,208	$26,442
Water management services	685	644	1,999	1,845
Other	3	3	7	7
Total operating revenues	$11,901	$11,765	$30,214	$28,294
Net income (loss):				
Regulated water utility operations	$2,396	$2,300	$4,279	$3,485
Water management services	65	64	134	106
Other	(84)	(91)	(447)	(247)
Total net income (loss)	$2,377	$2,273	$3,966	$3,344

	As of	
(in thousands)	September 30, 2011	December 31, 2010
Total assets:		
Regulated water utility operations	$177,720	$176,098
Water management services	165	127
Other	6,927	5,376
Total assets	$184,812	$181,601

Note 6 − Financial Measurement and Fair Value of Financial Instruments

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

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

Level 2: Based on significant observable inputs.

Level 3: Based on significant unobservable inputs.

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

For assets and liabilities measured at fair value on a recurring basis, the fair value measurement by levels within the fair value hierarchy used as of September 30, 2011 and December 31, 2010 was as follows:

(in thousands)	Total	Level 1	Level 2	Level 3
September 30, 2011:				
Interest rate swap	$(820)	$–	$(820)	$–
December 31, 2010:				
Interest rate swap	$(314)	$–	$(314)	$–

The carrying value of certain financial instruments included in the accompanying condensed consolidated balance sheet, along with the related fair value, as of September 30, 2011 and December 31, 2010 was as follows:

	September 30, 2011		December 31, 2010	
(in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities:				
Long-term debt	$(60,189)	$(53,360)	$(60,719)	$(56,401)
Interest rate swap liability	$(820)	$(820)	$(314)	$(314)

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The fair value for long-term debt shown above does not purport to represent the amounts at which those debt obligations would be settled. The fair market value of our interest rate swap represents the estimated cost to terminate this agreement as of September 30, 2011 based upon the then-current interest rates and the related credit risk.

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

Note 7 – Equity Investment in Unconsolidated Company

As of September 30, 2011 and December 31, 2010, Southwood held a 50 percent ownership interest in a limited liability company known as HECOP IV. HECOP IV, whose assets and liabilities are not included in the accompanying condensed consolidated balance sheets, owns approximately nine acres of undeveloped land in Merrimack, New Hampshire. The remaining ownership interest in HECOP IV is held by John P. Stabile II, principal owner of H. J. Stabile & Son, Inc. The short-term cash needs of HECOP IV are expected to be funded by its partners on an on-going basis and are not expected to be significant.

Southwood uses the equity method of accounting for its investment in HECOP IV and accordingly, its investment is adjusted for its share of losses. Southwood' s share of losses is included under "Net Loss from Investment Accounted for Under the Equity Method" in the accompanying condensed consolidated statements of income.

Note 8−Income Taxes

Income taxes are recorded using the accrual method. The provision for federal and state income taxes is based on income reported in our condensed consolidated financial statements as adjusted for items recognized differently for income tax purposes.

In determining the income reported in our condensed consolidated financial statements, all merger-related costs, which totaled approximately $741,000 in the aggregate as of September 30, 2011, have been expensed as incurred. Furthermore, based upon the nature and timing of such costs and without assuming that the planned merger will be completed, we have elected to treat such costs as timing differences in determining the provision for income taxes in our condensed consolidated financial statements. Accordingly, we have recorded an income tax expense benefit for such costs in the same periods in which such costs have been incurred and recorded. If and when the proposed merger actually closes, these costs may no longer be deductible in determining the income tax provision and would be capitalized as part of the merger consideration.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

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

Pennichuck Corporation is a non-operating holding company whose income is derived from the earnings of its five wholly-owned subsidiaries. We are engaged primarily in the collection, storage, treatment and distribution of potable water for domestic, industrial, commercial and fire protection service in New Hampshire through our three utility subsidiaries: Pennichuck Water, Pennichuck East and Pittsfield Aqueduct.

The percentage of our operating revenues generated by our regulated water utility subsidiaries as a group, and by Pennichuck Water separately, for the three and nine months ended September 30, 2011 and 2010 was as follows.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
All regulated water utility subsidiaries	94 %	95 %	93 %	93 %
Pennichuck Water	77 %	76 %	76 %	74 %

Pennichuck Water's franchise area presently includes the City of Nashua, New Hampshire and 10 surrounding municipalities.

Our Company' s regulated water utility subsidiaries are regulated by the New Hampshire Public Utilities Commission (the "NHPUC") with respect to their water rates, financings and provision of service. We must obtain NHPUC approval to increase our Company' s regulated water subsidiaries' water rates in order to recover increases in operating expenses and to obtain the opportunity to earn a return on investments in plant and equipment. New Hampshire law provides that utilities are entitled to charge rates which permit them to earn a reasonable return on the cost of the property employed in serving their customers, less accrued depreciation, contributed capital and deferred income taxes ("Rate Base"). The cost of capital permanently employed by a utility in its regulated business marks the rate of return that it is lawfully entitled to earn on its Rate Base. Capital expenditures associated with complying with federal and state water quality standards have historically been recognized and approved by the NHPUC for inclusion in our water rates, though there can be no assurance that the NHPUC will approve future rate increases in a timely or sufficient manner to cover our capital expenditures.

Service Corporation provides various non-regulated water-related monitoring, maintenance, testing and compliance reporting services for water systems for various towns, businesses and residential communities in New Hampshire and Massachusetts. Its most significant contracts are with the Town of Hudson, New Hampshire and the Town of Salisbury, Massachusetts.

Southwood is engaged in real estate management and commercialization activities. Historically, most of Southwood' s activities were conducted through real estate joint ventures. Over the past 10 years, Southwood has participated in four joint ventures with John P. Stabile II, a local developer. Southwood' s earnings have from time to time during that period contributed a significant percentage of our net income, including for the year ended December 31, 2008 (*i.e.*, the January 2008 sale of the three commercial office buildings that comprised substantially all of the assets of HECOPs I, II and III). Southwood' s contributions to our earnings from the sale of real estate have increased the fluctuations in our net income during the 10-year period. Looking ahead, we expect real estate commercialization to contribute a smaller proportion of our revenues and earnings over the next several years. Furthermore, during the term of our Merger Agreement (defined below) with the City of Nashua (the "City"), our ability to commercialize additional undeveloped landholdings shall generally be subject to the advance written consent of the City.

The eminent domain dispute with the City that is described in more detail below and elsewhere in this report has had a material adverse effect on our results of operations in recent years. This dispute was resolved with the signing of a definitive merger agreement ("Merger Agreement") on November 11, 2010 with the City pursuant to which the City will, subject to a number of conditions precedent and contingencies, purchase all of the outstanding common stock and common stock equivalents of Pennichuck Corporation for $29.00 per share, or approximately $138 million, in cash. After taking into account our outstanding debt, the transaction represents a total enterprise value of approximately $200 million.

As you read Management' s Discussion and Analysis, refer to our Condensed Consolidated Financial Statements and the accompanying Notes to Condensed Consolidated Financial Statements in Part I, Item 1, in this Quarterly Report on Form 10-Q.

Forward-Looking Statements

Certain statements in this Quarterly Report on Form 10-Q, including certain statements in Management' s Discussion and Analysis, are forward-looking statements intended to qualify for safe harbors from liability under the Private Securities Litigation Reform Act of 1995, as amended (and codified in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). The statements are made based upon, among other things, our current assumptions, expectations and beliefs concerning future developments and their potential effect on us. These forward-looking statements involve risks, uncertainties and other factors, many of which are outside our control and which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases you can identify forward-looking statements where statements are preceded by, followed by, or include the words "in the future," "believes," "expects," "anticipates," "plans" or similar expressions, or the negative thereof.

Forward-looking statements involve risks and uncertainties, and there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. Such factors include, but are not limited to, the timing and outcome of the merger-related NHPUC hearing and approval process, a future judicial or regulatory determination that events prior to the November 11, 2010 effective date of our Merger Agreement with the City of Nashua constituted a final determination of the price to be paid under RSA 38:13 and triggered the statutory 90-day period within which the City was required to decide whether to take, by eminent domain, the assets of our Pennichuck Water subsidiary; the expiration of said 90-day period without the City having made any such decision; whether the merger transaction with the City of Nashua is ultimately completed; the success of applications for rate relief; changes in governmental regulations; changes in the economic and business environment that may impact demand for our water, services and real estate products; changes in capital requirements that may affect our level of capital expenditures; changes in business strategy or plans; and fluctuations in weather conditions that impact water consumption. For a complete discussion of our risk factors, see Part I, Item 1A, "Risk Factors", in our Annual Report on Form 10-K for the year ended December 31, 2010. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

The Merger Agreement and Eminent Domain Settlement

The City has been engaged in an on-going effort that began in 2002 to acquire all or a significant portion of the assets of Pennichuck Water, our largest utility subsidiary, through an eminent domain proceeding under NHRSA Chapter 38. This dispute was resolved on November 11, 2010 when the City and the Company entered into a Merger Agreement pursuant to which the City will, subject to a number of conditions precedent and contingencies, purchase all of the outstanding common stock and common stock equivalents of Pennichuck Corporation for $29.00 per share, or approximately $138 million, in cash.

The shareholders of the Company approved the Merger Agreement at a Special Shareholder Meeting held on June 15, 2011.

The consummation of the merger is also subject to approval by the NHPUC. If the NHPUC approves the merger, the City' s obligation to complete the transaction is subject to, (i) there being no burdensome conditions imposed by the NHPUC that would materially adversely affect the City' s expected economic benefits from the transaction, and (ii) the City' s ability to obtain appropriate financing after all the conditions precedent (including those specified above and other customary closing conditions) have been met.

Relating to the NHPUC approval of the proposed merger with the City, on October 18, 2011, the Company, the City, the NHPUC Staff and certain other parties entered into and filed with the NHPUC the 2011 Settlement Agreement in which they recommended that the NHPUC approve the merger. The final hearing before the NHPUC was held on October 25, 2011 and all parties are now awaiting the ruling of the NHPUC. The NHPUC' s ruling is subject to appeal during the 30-day period following its issuance; thereafter, if no appeal is filed, it becomes final.

Additionally, under the terms of the Merger Agreement, the City, in effect, has 90 days after the NHPUC ruling becomes final to complete the financing. Therefore, while the merger could possibly be completed by December 31, 2011, we believe that if the NHPUC approves the merger, it is more likely to be completed in the first quarter of 2012.

See Part I, Item 1, "Business" and Part I, Item 1A, "Risk Factors", in our Annual Report on Form 10-K for the year ended December 31, 2010 for a discussion of the background of the eminent domain proceeding and the settlement of the dispute in connection with the Merger Agreement, which discussion is incorporated herein by reference.

Critical Accounting Policies, Significant Estimates and Judgments

We have identified the accounting policies below as those policies critical to our business operations and an understanding of our results of operations. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Changes in the estimates or other judgments reflected in these accounting policies could result in significant changes to the condensed consolidated financial statements. Our critical accounting policies are as follows:

Regulatory Accounting. Accounting Standards Codification Topic 980 "Regulated Operations" prescribes generally accepted accounting principles for companies whose rates are established by or are subject to approval by an independent third-party regulator such as the NHPUC. Accordingly, we defer costs and credits on the condensed consolidated balance sheets as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits are incurred. These deferred amounts, both assets and liabilities, are then recognized in the condensed consolidated statements of income in the same period that they are reflected in rates charged to our water utility subsidiaries' customers. In the event that the inclusion in the rate-making process is disallowed, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

We have not deferred costs incurred to defend against the City' s eminent domain proceeding against our Pennichuck Water subsidiary or in connection with the proposed merger. We have, however, asked for recovery of a portion of these costs in rate relief filed with the NHPUC in May 2010. Our request has been stayed pending the outcome of the proposed acquisition by the City.

Revenue Recognition. The revenues of our regulated water utility subsidiaries are based on authorized rates approved by the NHPUC. Estimates of water utility revenues for water delivered to customers but not yet billed are accrued at the end of each accounting period. We read our customer meters on a monthly basis and record revenues based on those readings. Unbilled revenues from the last meter-reading date to the end of the accounting period are estimated based on historical usage and applicable water rates. Actual results could differ from those estimates. Accrued unbilled revenues recorded in the accompanying condensed consolidated financial statements as of September 30, 2011 and December 31, 2010 were $4.3 million and $2.4 million, respectively. At September 30, 2011, unbilled revenues included $1.3 million of recoupment revenue recognized in the second quarter of 2011 that resulted from permanent rate increase orders for Pennichuck Water and Pittsfield Aqueduct that will be billed pro-rata over a 12 month period commencing in November 2011.

Our non-utility revenues are recognized when services are rendered. Revenues are based, for the most part, on long-term contractual rates.

Pension and Other Post-retirement Benefits. Our pension and other post-retirement benefit costs are dependent upon several factors and assumptions, such as employee demographics, plan design, the level of cash contributions made into the plans, earnings on the plans' assets, the discount rate applied to estimated future payment obligations, the expected long-term rate of return on plan assets, and health care cost trends.

Changes in pension and other post-retirement benefit obligations associated with these factors may not be immediately recognized as costs in the condensed consolidated statements of income, but generally are recognized in future years over the remaining average service period of the plan participants.

In determining pension obligation and expense amounts, the factors and assumptions described above may change from period to period, and such changes could result in material changes to recorded pension and other post-retirement benefit costs and funding requirements. Further, the value of our pension plan assets are subject to fluctuations in market returns that may result in increased or decreased pension expense in future periods.

Our pension plan currently meets the minimum funding requirements of the Employee Retirement Income Security Act of 1974. We currently anticipate that we will contribute approximately $1.0 million to the plan during 2011.

Results of Operations − General

In this section, we discuss our results of operations for the three and nine months ended September 30, 2011 and 2010 and the factors affecting them. Our operating activities are discussed in Note 5, "Business Segment Reporting" in Part I, Item I, in this Quarterly Report on Form 10-Q.

Results of Operations − Three Months Ended September 30, 2011
Compared to Three Months Ended September 30, 2010

Overview

Our revenues, and consequently our net income, can be significantly affected by economic and weather conditions as well as customer conservation efforts, and in past years, our net income has been significantly affected by periodic sales of significant real estate assets. Water revenues are typically at their lowest point during the first and fourth quarters of the calendar year. Water revenues in the second and third quarters tend to be greater because of increased water consumption for non-essential usage by our customers during the late spring and summer months.

For the three months ended September 30, 2011, our net income was $2.4 million, compared to net income of $2.3 million for the three months ended September 30, 2010. On a per share basis (diluted), net income for the three months ended September 30, 2011 was $0.50 as compared to net income of $0.48 for the three months ended September 30, 2010.

Regulated Water Utility Operations

Our regulated water utility operations include the activities of Pennichuck Water, Pennichuck East and Pittsfield Aqueduct, each of which is regulated by the NHPUC.

For the three months ended September 30, 2011, our utility operating revenues were $11.2 million as compared to $11.1 million for the three months ended September 30, 2010, an increase of $94,000 or 0.8%. This slight increase was the net result of higher water rates in this year' s third quarter being applied to comparatively lower water usage volumes. Pennichuck Water was granted an 11.95% permanent rate increase in June 2011. However, the effect of this rate increase on revenues for this year' s third quarter was largely offset by an approximate 15% decline in water usage volumes, as weather conditions for the third quarter of 2010 were unusually dry and warm.

For the three months ended September 30, 2011, 67% of our billed regulated water utility usage was to residential customers, and 28% to commercial and industrial customers, with the balance being principally from billings to municipalities.

We believe our customer usage is impacted by the weather, the economy and conservation efforts in response to rate increases, as well as general customer response to various conservation focused communications and the continuing installation of more water efficient appliances.

For the three months ended September 30, 2011, our total utility operating expenses decreased by approximately 0.5% over the three months ended September 30, 2010 as shown in the table below.

	Three Months Ended September 30,		
(in thousands)	**2011**	**2010**	**Change**
Operations & maintenance	$4,295	$4,423	$(128)
Depreciation & amortization	1,049	1,046	3
Taxes other than income taxes	1,065	974	91
Total Utility Operating Expenses	$6,409	$6,443	$(34)

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

Water supply, treatment, purification and pumping;

Transmission and distribution system functions, including repairs and maintenance and meter reading; and

Engineering, customer service and general and administrative functions.

The $34,000 decrease in our utilities' operating expenses versus the same period in 2010 was the result of numerous variations, including the following:

Decreased production costs of $202,000 primarily related to decreased production fuel and power costs; offset by

Increased taxes other than income taxes of $91,000 principally related to increased real estate taxes resulting from capital additions and increased assessed values on our water system properties; and

Increased general and administrative costs of approximately $47,000 principally due to an increase in the cost of healthcare and other employee benefits.

As a result of the above changes in operating revenues and expenses, regulated water utility operating income increased by $128,000, or 2.7%, for the three months ended September 30, 2011 over the three months ended September 30, 2010.

Water Management Services

The operating revenues of our water management services segment increased to $685,000 for the three months ended September 30, 2011 from $644,000 for the three months ended September 30, 2010, resulting in an increase of $41,000, or 6.5%, primarily as a result of increased unplanned maintenance work under certain service contracts. The net income of our water management services segment for the three months ended September 30, 2011 remained essentially unchanged from the three months ended September 30, 2010. We expect that net income for the remainder of 2011 will be consistent with the fourth quarter of 2010.

Eminent domain and merger-related costs

Our eminent domain and merger-related costs were $99,000 for the three months ended September 30, 2011 as compared to $159,000 for the three months ended September 30, 2010, a decrease of $60,000. The 2011 and 2010 eminent domain and merger-related costs were primarily attributable to legal fees associated with the NHPUC proceedings and related activities.

Provision for Income Taxes

For the three months ended September 30, 2011, we recorded an income tax expense of $1.6 million compared to $1.5 million for the three months ended September 30, 2010. The effective income tax rate for both periods was 39.6%.

Results of Operations − Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

Overview

Our revenues, and consequently our net income, can be significantly affected by economic and weather conditions as well as customer conservation efforts, and in past years, our net income has been significantly affected by periodic sales of major real estate assets. Water revenues are typically at their lowest point during the first and fourth quarters of the calendar year. Water revenues in the second and third quarters tend to be greater because of increased water consumption for non-essential usage by our customers during the late spring and summer months.

For the nine months ended September 30, 2011, our net income was $4.0 million, compared to net income of $3.3 million for the nine months ended September 30, 2010. On a per share basis (diluted), net income for the nine months ended September 30, 2011 was $0.83 as compared to net income of $0.71 for the nine months ended September 30, 2010. The principal factors that affected current period net income, relative to the comparable prior period, were the following:

An increase in regulated water utility operating income of $1.2 million;

A decrease in interest expense of $79,000; partially offset by

An increase in eminent domain and merger-related costs of $280,000; and

An increase in income tax expense of $408,000.

Regulated Water Utility Operations

Our regulated water utility operations include the activities of Pennichuck Water, Pennichuck East and Pittsfield Aqueduct, each of which is regulated by the NHPUC.

For the nine months ended September 30, 2011, our utility operating revenues increased to $28.2 million compared to $26.4 million for the nine months ended September 30, 2010, an increase of approximately $1.8 million or 6.7%. The increase in revenues was principally due to a 10.8% temporary rate increase granted to Pennichuck Water in October 2010 which was replaced by an 11.95% permanent rate increase granted to Pennichuck Water in June 2011. Operating revenues for the nine months ended September 30, 2011 also include approximately $1.2 million of recoupment revenue resulting from a permanent rate increase granted to Pennichuck Water on June 9, 2011. The recoupment revenue is the result of applying the permanent rates to service rendered from June 16, 2010, the date customers were notified of the rate increase filing, to the June 9, 2011 date of the permanent rate order. We also recorded a $209,000 negative adjustment to revenues to reflect a provision in the rate order requiring a sharing of gains on certain cell tower revenues recorded in prior years. This amount was recorded as a deferred credit on our balance sheet and is being amortized over four years retroactive to June 16, 2010.

The increase in revenues was partially offset by an 11% lower billed sales volume in 2011 compared to 2010 resulting from a combination of increased conservation and comparatively wetter and cooler weather in this year’ s third quarter.

For the nine months ended September 30, 2011, 68% of our billed regulated water utility usage was to residential customers, and 28% to commercial and industrial customers, with the balance being principally from billings to municipalities.

We believe our customer usage is impacted by the weather, the economy, and conservation efforts in response to rate increases, as well as general customer response to various conservation focused communications and the continuing installation of more water efficient appliances.

For the nine months ended September 30, 2011, our total utility operating expenses increased by approximately 3.0% over the nine months ended September 30, 2010 as shown in the table below.

	Nine Months Ended September 30,		
(in thousands)	2011	2010	Change
Operations & maintenance	$12,167	$12,055	$112
Depreciation & amortization	3,147	3,145	2
Taxes other than income taxes	3,304	2,876	428
Total Utility Operating Expenses	$18,618	$18,076	$542

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

Water supply, treatment, purification and pumping;

Transmission and distribution system functions, including repairs and maintenance and meter reading; and

Engineering, customer service and general and administrative functions.

The $542,000 increase in our utilities' operating expenses over the same period in 2010 was primarily the result of the following:

Increased taxes other than income taxes of $428,000 principally related to increased real estate taxes resulting from capital additions and increased assessed values on our water system properties;

Increased transmission and distribution costs of $149,000 primarily relating to routine and periodic maintenance costs, including snow removal;

Increased depreciation and amortization of $2,000 due to increased depreciation from property and plant additions during 2010 and the first three quarters of 2011 partly offset by amortization of a deferred credit ordered by the NHPUC from June 16, 2010 through June 30, 2011 in the amount of approximately $67,000 (as discussed previously); offset by

Decreased production costs of $62,000 primarily related to decreased production fuel and power costs, offset partially by increased purchased water costs in some of our small community water systems; and

Lower general and administrative costs of approximately $17,000 due principally to an increase in the cost of healthcare and other employee benefits, partly offset by reduced non-cash compensation expense from employee stock options.

As a result of the above changes in operating revenues and expenses, regulated water utility operating income increased by $1.2 million, or 14.6%, for the nine months ended September 30, 2011 over the nine months ended September 30, 2010.

Pennichuck Water had filed for rate relief with the NHPUC on May 7, 2010 seeking a permanent annual increase in revenues of $3.9 million, or 16.23%, plus a step increase of $0.9 million, or 3.68%. The rate relief request also included a request to recover certain amounts expended by us in connection with the eminent domain proceeding. On October 8, 2010, the NHPUC issued an order approving a temporary rate increase which equates to an annualized increase in revenues of approximately $2.6 million, or 10.8%, effective for bills rendered from and after October 8, 2010. On June 9, 2011, the NHPUC issued an order approving a permanent rate increase which equates to an annualized increase in revenues of approximately $2.9 million, or 11.95%, effective for service rendered from June 2010. The permanent rate increase replaced the temporary rate increase granted in October 2010.

A one-time recoupment of revenues, as discussed previously, was recorded in the second quarter of 2011 in the amount of approximately $1.2 million. Our request to recover approximately $5.4 million in eminent domain defense costs as part of the above rate case has been stayed pending the completion of the acquisition of our business by the City of Nashua.

In the order, the NHPUC also approved a pilot Water Infrastructure and Conservation Adjustment ("WICA") mechanism that will allow Pennichuck Water to recover, through a rate surcharge between rate cases, certain costs of replacing and rehabilitating aging water infrastructure assets as such assets are placed into service. The WICA charge will allow Pennichuck Water to increase its rates, based on approved in-service projects, up to a maximum of 2% per year and 7.5% in total between rate cases.

Our utilities expect to periodically seek rate relief, as necessary, to recover increased operating costs and to obtain recovery of and a return on capital additions as they are made over time as well as to adjust for the impact of reduced consumption related to conservation and economic conditions.

Water Management Services

The operating revenues of our water management services segment increased to $2.0 million for the nine months ended September 30, 2011 from $1.8 million for the nine months ended September 30, 2010, resulting in an increase of $155,000, or 8.4%, primarily as a result of increased unplanned maintenance work under certain service contracts. The net income of our water management services segment increased by $28,000 to $134,000 for the nine months ended September 30, 2011 from $106,000 for the nine months ended September 30, 2010. We expect that net income for the remainder of 2011 will be consistent with the fourth quarter of 2010.

Eminent domain and merger-related costs

Our eminent domain and merger-related costs were $672,000 for the nine months ended September 30, 2011 as compared to $392,000 for the nine months ended September 30, 2010, an increase of $280,000. The increase was largely attributable to a $250,000 fee in connection with obtaining a "fairness opinion" from our merger-related financial advisors. The balance of the 2011 and the 2010 eminent domain and merger-related costs were primarily attributable to legal fees associated with the eminent domain and merger approval proceedings.

Interest Expense

For the nine months ended September 30, 2011, interest expense was $2.4 million, compared to $2.5 million in 2010. The decrease of $79,000 was primarily attributable to periodic reductions in debt principal related to various sinking fund payments and a patronage distribution in the amount of $37,000 declared and paid by a cooperative lending institution during the first quarter of 2011.

Provision for Income Taxes

For the nine months ended September 30, 2011, we recorded an income tax expense of $2.6 million compared to $2.2 million for the nine months ended September 30, 2010. The effective income tax rate for both periods was 39.6%.

Liquidity and Capital Resources

Overview

Our primary sources of funds are net cash flow from utility operations, cash proceeds from the commercialization of portions of our non-utility real estate holdings, borrowings pursuant to our bank revolving credit facilities and proceeds from the sale of long-term debt and equity securities. Our primary uses of funds are capital expenditures associated with our continuous utility construction programs, dividends on our common stock payable as and when declared by our Board of Directors and repayments of principal on our outstanding debt obligations, whether pursuant to scheduled sinking fund payments or final maturities.

For the past several years, cash flows have fluctuated largely based on four factors: (i) weather, (ii) amount and timing of rate increases, (iii) gain(s) recognized on the sale of non-utility real estate and cell tower leases, and (iv) costs associated with the City of Nashua' s eminent domain proceeding and the Merger Agreement. We expect that weather and the amount and timing of rate increases will continue to impact liquidity and that gains from the sale of non-utility real estate will occur relatively infrequently. We expect that additional costs will be incurred throughout most of 2011 primarily related to seeking NHPUC approval in connection with the proposed merger.

We utilize our revolving credit facility to a greater or lesser extent in response to variations in cash flow from the factors discussed above. Our Company has been able to obtain long-term financing as needed in the current economic environment.

Capital Expenditures Program

We are engaged in construction programs at our utility subsidiaries primarily for water distribution system repair, rehabilitation and replacement, water storage facility maintenance and additions, and water supply security. We expect our capital expenditures to be approximately $5.6 million $9.2 million and $6.9 million for the years ending December 31, 2011, 2012 and 2013, respectively. The timing of these projects may be impacted by weather, availability of contractors and equipment, coordination with other utilities and municipalities in order to reduce digging and paving costs and the availability and cost of financing.

Significant Financial Covenants

Our $16.0 million revolving credit loan agreement with Bank of America was amended in June 2011 to reduce the line to $12 million and to extend the expiration date to February 28, 2012. The reduction in the revolving credit facility was made to reflect our reduced borrowing needs in light of the completion of our water treatment plant last year. This loan agreement contains three financial maintenance tests which must be met on a quarterly basis. The capitalized terms below are used herein as defined in the revolving credit loan agreement. These maintenance tests, and our actual performance against these tests as of the dates specified, are as follows:

(1) our Fixed Charge Coverage Ratio must exceed 1.2x (2.76x as of September 30, 2011);

(2) our Tangible Net Worth must exceed $46.3 million ($57.5 million as of September 30, 2011); and

(3) our Funded Debt (less certain cash and short-term investment balances, if any) must not exceed 65% of our Total Capitalization (49.4% as of September 30, 2011).

Also, various Pennichuck Water and Pennichuck East loan agreements contain tests that govern the issuance of additional indebtedness. The capitalized terms below are used herein as defined in the revolving credit loan agreement. These issuance tests are as follows:

(1) to issue Short-Term Debt, the sum of our Short-Term Debt and our Funded Debt may not exceed 65% of the sum of our Short-Term Debt, our Funded Debt and our capital stock and all surplus accounts (unless the new Short-Term Debt is subordinated to our existing debt);

(2) to issue long-term debt, our Funded Debt generally may not exceed 60% of our Net Amount of Capital Property Additions; and

(3) to issue long-term debt, our Earnings Available for Interest divided by our Interest Expense must exceed 1.5x.

Several of Pennichuck Water' s loan agreements contain a covenant that prevents Pennichuck Water from declaring dividends if Pennichuck Water does not maintain a minimum net worth of $4.5 million. As of September 30, 2011, Pennichuck Water' s net worth was $54.9 million. One of Pennichuck East' s loan agreements contains a covenant that prevents Pennichuck East from declaring dividends if Pennichuck East does not maintain a minimum net worth of $1.5 million. As of September 30, 2011, Pennichuck East' s net worth was $6.7 million.

As of September 30, 2011, we complied with all of our financial covenants. Our ability to continue to satisfy these covenants depends on, among other factors, receipt of timely and adequate rate relief.

Quarterly Dividends

One of our primary uses of funds is dividends on our common stock, payable as and when declared by our Board of Directors. We have paid dividends on our common stock each year since 1856. On November 7, 2011, the Board of Directors declared a fourth quarter common stock dividend of $0.185 per share payable December 1, 2011 to shareholders of record as of November 18, 2011. The third quarter dividend amount results in an indicated annual rate of $0.74 per share. During the term of the Merger Agreement, we are restricted from increasing our dividend rate above the current rate although we are allowed to continue to pay dividends consistent with past practice. Accordingly, we expect to continue to pay comparable cash dividends in the future, subject to the terms of our debt agreements and the Merger Agreement, as more fully discussed above.

Off-Balance Sheet Arrangements

On August 24, 2006, Pennichuck Water implemented a legal defeasance transaction for its outstanding $780,000 New Hampshire Industrial Development Authority 7.5% 1988 Series tax-exempt bonds (“1988 Series Bonds”). Pennichuck Water placed U.S. treasury securities in an irrevocable escrow account with The Bank of New York, the Bond Trustee, in an aggregate amount sufficient to provide for all remaining scheduled principal and interest payments on the 1988 Series Bonds. This defeasance transaction discharged all future Pennichuck Water obligations with respect to the 1988 Series Bonds, and Pennichuck Water no longer records the debt in its condensed consolidated financial statements.

In October 2005, Pennichuck Water completed a $49.5 million tax-exempt debt financing with the New Hampshire Bond Finance Authority (“BFA”). The BFA acts solely as a passive conduit to the tax-exempt bond markets with us acting as the obligor for the associated tax-exempt debt. We borrowed $38.1 million of the $49.5 million offering. The remaining $11.4 million which had been in escrow for the sole benefit of bondholders with no recourse to us was allowed to expire in July 2010 as a result of the completion of our $40 million water treatment plant upgrade and the December 2009 issuance of approximately $7.5 million of equity capital, net of expense.

We have one interest rate financial instrument, an interest rate swap, described in detail in Part I, Item 3, “Quantitative and Qualitative Disclosures about Market Risk”, in our Quarterly Report on Form 10-Q for the period ended September 30, 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In addition to the other information set forth in Note 6, “Financial Measurement and Fair Value of Financial Instruments” in Part I, Item I, in this Quarterly Report on Form 10-Q, you should carefully consider the disclosures about market risk discussed in Part II, Item 7A, “Quantitative and Qualitative Disclosures about Market Risk” and Note 9 in Part II, Item 8, “Debt”, in our Annual Report on Form 10-K for the year ended December 31, 2010.

ITEM 4. CONTROLS AND PROCEDURES

We carried out an evaluation required by Rule 13a-15(b) of the Securities Exchange Act of 1934 under the supervision and with the participation of our management, including the principal executive officer and the principal financial officer, of the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Report.

Disclosure controls and procedures are designed with the objective of ensuring that (i) information required to be disclosed in our Company’ s reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’ s rules and forms and (ii) information is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Based on their evaluation, the principal executive officer and the principal financial officer have concluded that our disclosure controls and procedures are effective as of the end of the period covered by this Report on Form 10-Q to provide assurance that (i) information relating to our Company (including our consolidated subsidiaries) required to be included in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in applicable Securities and Exchange Commission’ s rules and forms and (ii) information is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The City of Nashua, New Hampshire (the "City") has been engaged in an effort that began in 2002 to acquire all or a significant portion of the assets of Pennichuck Water, our largest utility subsidiary, through an eminent domain proceeding under NHRSA Chapter 38, and to acquire the assets of our Pennichuck East and Pittsfield Aqueduct regulated utilities. As previously disclosed in a Form 8-K filed November 12, 2010 and in connection with the Merger Agreement, on November 11, 2010 our Company entered into an agreement with the City pursuant to which the pending eminent domain proceeding by the City against the Company (docketed by the NHPUC as DW 04-048) will be terminated as of the end of the term of the Merger Agreement even if the merger is not completed.

See Part I, Item 1A, "Risk Factors" for a discussion of various risks and uncertainties associated with this proceeding.

Giardia Litigation

In August 2010, two claims were filed against our Company and Pittsfield Aqueduct relating to a single outbreak of Giardia contamination that occurred in the water supply for the Birch Hill community water system in North Conway, New Hampshire during September 2007. The Center for Disease Control characterizes giardiasis as a "common cause of waterborne disease in humans in the United States" resulting from ingesting Giardia cysts. Healthy people normally recover within 2-6 weeks without medicine and more quickly with medicine. There were 16 confirmed cases of giardiasis at Birch Hill in September 2007, two of which resulted in some prolonged physical effects. The 3-year statute of limitations has now run out on filing any new claims relating to this outbreak. Therefore, these are the only cases we expect to have filed with respect to this incident.

Water utilities are not required by federal or state water quality standards to test for Giardia. To our knowledge, this is the only known outbreak of Giardia at Birch Hill. The water quality of the wells servicing the Birch Hill community was determined to meet all state/federal water quality standards when we purchased the system in 2006, and we believe that we continued to operate them in accordance with those standards. To date, the source and means by which Giardia cysts might have infected the well remains unknown. Normally, if there is an outbreak of Giardia, it usually occurs in surface water or in a shallow gravel-packed well close to surface water. It is highly unusual for a bedrock well, such as the one in question at Birch Hill, to become infected with Giardia cysts. Even though the presence of Giardia cysts was not confirmed in the well in question, as a precaution, the well was immediately shut-down and abandoned in September 2007. Since then, the Birch Hill water system has been interconnected to the North Conway Water District water system. We expect that both of these claims will be covered by our Company' s primary and/or umbrella insurance policies and that there will not be any material impact on our Company.

Both of these cases are currently in the discovery phase and are scheduled for mediation in November 2011. If such mediations are unsuccessful, each case is expected to be tried in the third quarter of 2012. With respect to one of these cases, based upon the limitation of liability provisions specified in Pittsfield Aqueduct' s tariff for the water services it provided at Birch Hill, the New Hampshire Superior Court dismissed all claims based on any theories other than negligence. The plaintiff in that case filed a motion for rehearing but the Court denied such motion on August 18, 2011.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part I, Item 1A, "Risk Factors", in our Annual Report on Form 10-K for the year ended December 31, 2010. See also discussion under "The Merger Agreement and Eminent Domain Settlement" included in Part I, Item 2, in this Quarterly Report on Form 10-Q.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. RESERVED

ITEM 5. OTHER INFORMATION

On November 7, 2011, we issued a press release announcing our financial results for the three and nine months ended September 30, 2011. A copy of the press release is attached as Exhibit 99.1 to this Quarterly Report on Form 10-Q. The information contained in Exhibit 99.1 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing with the SEC under the Exchange Act of 1934 or the Securities Act of 1933, except as expressly set forth by specific reference in such a filing.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
3.1	Restated Articles of Incorporation of Pennichuck Corporation (filed as Exhibit 3.1 to the Company' s 2007 Annual Report on Form 10-K and incorporated herein by reference)
3.2	Bylaws of Pennichuck Corporation (filed as Exhibit 3.2 to the Company' s third quarter 2008 Quarterly Report on Form 10-Q and incorporated herein by reference)
4.1	Rights Agreement dated as of April 20, 2000 between Pennichuck Corporation and Fleet National Bank, as Rights Agent (filed as Exhibit 4.1 to the Company' s Registration Statement on Form 8-A12G, filed on April 21, 2000 and incorporated herein by reference)
4.2	Amendment to Rights Agreement dated October 10, 2001, by and between Pennichuck Corporation and Fleet National Bank (filed as Exhibit 4.1 to the Company' s Registration Statement on Form 8-A12G/A, filed on April 30, 2002 and incorporated herein by reference)
4.3	Second Amendment to Rights Agreement dated January 14, 2002, by and between Pennichuck Corporation and EquiServe Trust Company, N.A. (filed as Exhibit 4.2 to the Company' s Registration Statement on Form 8-A12G/A, filed on April 30, 2002 and incorporated herein by reference)
4.4	Agreement of Substitution and Amendment of Common Shares Rights Agreement dated January 15, 2002, by and between Pennichuck Corporation and American Stock Transfer & Trust Company (filed as Exhibit 4.3 to the Company' s Registration Statement on Form 8-A12G/A, filed on April 30, 2002 and incorporated herein by reference)
4.5	Amendment to Rights Agreement dated April 29, 2002, by and between Pennichuck Corporation and American Stock Transfer & Trust Company (filed as Exhibit 99.2 to the Company' s Current Report on Form 8-K filed on April 29, 2002 and incorporated herein by reference)
4.6	Dividend Reinvestment and Common Stock Purchase Plan, as amended (included in the prospectus in the Company' s Registration Statement on Form S-3/A, filed on April 8, 2009 and incorporated herein by reference)
4.7	Amendment to Rights Agreement, effective as of August 15, 2006, by and between Pennichuck Corporation and American Stock Transfer & Trust Company (filed as Exhibit 4.1 to the Company' s Registration Statement on Form 8-A12G/A, filed on September 25, 2006 and incorporated herein by reference)
4.8	Sixth Amendment to Rights Agreement, effective as of March 2, 2009, by and between Pennichuck Corporation and American Stock Transfer & Trust Company (filed as Exhibit 4.8 to the Company' s Registration Statement on Form 8-A12G/A filed on March 5, 2009 and incorporated herein by reference)

Exhibit Number	Exhibit Description
4.9	Letter agreement, effective as of March 18, 2009, by and between Pennichuck Corporation and GAMCO Investors, Inc. and its affiliated entities (filed as Exhibit 4.1 to the Company' s Current Report on Form 8-K, filed on March 19, 2009 and incorporated herein by reference)
4.10	Seventh Amendment to Rights Agreement, effective as of March 24, 2010, by and between Pennichuck Corporation and American Stock Transfer & Trust Company, LLC (filed as Exhibit 4.10 to the Company' s Registration Statement on Form 8-A12G/A filed on March 26, 2010 and incorporated herein by reference)
4.11	Eighth Amendment to Rights Agreement, effective as of October 29, 2010, by and between Pennichuck Corporation and American Stock Transfer & Trust Company, LLC (filed as Exhibit 4.1 to the Company' s Current Report on Form 8-K, filed on November 1, 2010 and incorporated herein by reference)
4.12	Ninth Amendment to Rights Agreement, effective as of November 11, 2010, by and between Pennichuck Corporation and American Stock Transfer & Trust Company, LLC (filed as Exhibit 4.1 to the Company' s Current Report on Form 8-K, filed on November 12, 2010 and incorporated herein by reference)
31.1	Certification
31.2	Certification
32.1	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Press Release – "Pennichuck Corporation Announces Third Quarter 2011 Earnings" dated November 7, 2011
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

Pennichuck Corporation
(Registrant)

Date: November 7, 2011	By: /s/ Duane C. Montopoli Duane C. Montopoli President and Chief Executive Officer
Date: November 7, 2011	By: /s/ Thomas C. Leonard Thomas C. Leonard Senior Vice President, Treasurer and Chief Financial Officer

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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 31.1

SECTION 302 CERTIFICATION OF THE PRESIDENT AND PRINCIPAL EXECUTIVE OFFICER

I, Duane C. Montopoli, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pennichuck Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of registrant' s Board of Directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: November 7, 2011

/s/ Duane C. Montopoli

Duane C. Montopoli, President and Principal Executive Officer

Exhibit 31.2

SECTION 302 CERTIFICATION OF THE SENIOR VICE PRESIDENT, TREASURER AND PRINCIPAL FINANCIAL OFFICER

I, Thomas C. Leonard, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pennichuck Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of registrant' s Board of Directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: November 7, 2011

/s/ Thomas C. Leonard
Thomas C. Leonard
Senior Vice President, Treasurer and Principal Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011 of Pennichuck Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Duane C. Montopoli, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.

Date: November 7, 2011

/s/ Duane C. Montopoli
Duane C. Montopoli
President and Chief Executive Officer

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011 of Pennichuck Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas C. Leonard, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.2 is expressly and specifically incorporated by reference in any such filing.

Date: November 7, 2011

/s/ Thomas C. Leonard
Thomas C. Leonard
Senior Vice President, Treasurer and Chief
Financial Officer

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 99.1

For Immediate Release: November 7, 2011

For More Information, Contact:
Thomas C. Leonard, Senior Vice President and Chief Financial Officer
Phone: 603-913-2300
Fax: 603-913-2305

Pennichuck Corporation Announces Third Quarter 2011 Earnings
Year-to-Date Adjusted EPS Up 21% Over Prior Year

MERRIMACK, NH (November 7, 2011) - Pennichuck Corporation (NASDAQ: PNNW) today announced that net income for its third quarter ended September 30, 2011 was $2.4 million, or $0.50 per share (diluted), on revenues of $11.9 million. Adjusted for non-operating eminent domain and merger-related costs incurred in connection with the Company' s agreement to be acquired by the City of Nashua, New Hampshire, which totaled $99,000, third quarter earnings were $0.51 per share (diluted). This compares to net income for the third quarter in 2010 of $2.3 million, or $0.48 per share (diluted), on revenues of $11.8 million. Adjusted for eminent domain and merger-related costs which totaled $159,000, 2010 third quarter earnings were $0.50 per share (diluted).

The increase in 2011 third quarter earnings of $104,000 was due principally to increased water utility revenues of $95,000, lower utility operating expenses of $33,000 and lower merger-related costs of $60,000, offset in part by increased income tax expense of $69,000. The increase in utility revenues for the quarter resulted from an 11.95% permanent rate increase granted to the Company' s Pennichuck Water regulated utility subsidiary in June 2011, net of the effects of an approximate 15% decline in water usage volumes in this year' s third quarter. Weather conditions for the third quarter of 2010 were unusually dry and warm. The decrease in utility operating expenses was due principally to decreased production costs as a result of the lower water usage volumes, partly offset by higher real property taxes including state utility taxes and higher healthcare and other employee benefit costs.

For the nine months ended September 30, 2011, net income was $4.0 million, or $0.83 per share (diluted), on revenues of $30.2 million. Adjusted for eminent domain and merger-related costs which totaled $672,000, earnings for the nine months ended September 30, 2011 were $0.92 per share (diluted). This compares to net income for the nine months ended September 30, 2010 of $3.3 million, or $0.71 per share (diluted), on revenues of $28.3 million. Adjusted for eminent domain and merger-related costs which totaled $392,000, earnings for the nine months ended September 30, 2010 were $0.76 per share (diluted). Adjusted earnings of $0.92 per share represents a 21% increase over adjusted earnings of $0.76 per share.

The increase in net income for the nine months ended September 30, 2011, compared with the same period in the prior year, was due principally to increased water utility revenues of $1.8 million, offset in part by higher utility operating expenses of $542,000, higher eminent domain and merger-related costs in the amount of $280,000 and increased income tax expense of $408,000. The increase in utility revenues resulted from a 10.8% temporary rate increase prospectively granted to the Company' s Pennichuck Water Works, Inc. regulated water utility subsidiary ("Pennichuck Water") in October 2010 and the replacement of that temporary rate order by an 11.95% permanent rate increase granted in June 2011, net of the effects of lower water usage volumes in the third quarter of the current year due to comparatively cooler weather and continued water conservation. In June of this year, the Company also recorded recoupment operating revenues of approximately $1.2 million based on rates set in the permanent rate order for service rendered from June 2010 to June 2011. The increase in utility operating expenses was due principally to increased production, transmission and distribution costs, higher real property taxes including state utility taxes and higher healthcare and other employee benefit costs.

Commenting on the results for the third quarter, Duane C. Montopoli, Pennichuck' s President and Chief Executive Officer, said, "The timely receipt of rate relief by Pennichuck Water resulted in revenues and net income that compare favorably with 2010 even though consumption dropped 15% primarily as a result of a return to more seasonable weather in the current year."

Commenting on the Company' s planned acquisition by the City of Nashua, Mr. Montopoli added, "I am pleased that we were able to reach a settlement with the NHPUC staff and a majority of the intervenors, which was filed and then reviewed at an NHPUC hearing on October 25, 2011. We are currently awaiting a decision from the NHPUC. If we receive a favorable decision, I would expect Nashua to complete its bond issue as soon as practicable in order to close the transaction no later than the first quarter of 2012."

Pennichuck Corporation is a holding company involved principally in the supply and distribution of potable water in New Hampshire through its three regulated water utilities. Its non-regulated, water-related activities include operations and maintenance contracts with municipalities and private entities in New Hampshire and Massachusetts. The Company' s real estate operations are involved in the ownership, management and environmentally responsible commercialization of real estate in southern New Hampshire.

Pennichuck Corporation' s common stock trades on the Nasdaq Global Market under the symbol "PNNW." However, upon the completion of the proposed merger with the City of Nashua, Pennichuck' s common stock will cease to be publicly-traded. The Company' s website is at www.pennichuck.com.

Forward-Looking Statements

This news release may contain certain forward-looking statements with respect to the financial condition, results of operations and business of Pennichuck Corporation. Forward-looking statements are based on current information and expectations available to management at the time the statements are made, and are subject to various factors, risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, a future judicial or regulatory determination that events prior to the November 11, 2010 effective date of our merger agreement with the City of Nashua constituted a final determination of the price to be paid under RSA 38:13 and triggered the statutory 90-day period within which the City was required to decide whether to take, by eminent domain, the assets of our Pennichuck Water Works, Inc. subsidiary; the expiration of said 90-day period without the City having made any such decision; whether the merger transaction is approved by the NHPUC; whether the merger transaction is ultimately consummated; Nashua' s ability to obtain appropriate financing for the merger; the outcome of requests for rate relief from the NHPUC from time to time; changes in governmental regulations; legislation and/or regulation and accounting factors affecting Pennichuck Corporation' s financial condition and results of operations; the availability and cost of capital, including the impact on our borrowing costs of changes in interest rates; and, the impact of weather. Investors are encouraged to access Pennichuck Corporation' s annual and quarterly periodic reports filed with the Securities and Exchange Commission for financial and business information regarding Pennichuck Corporation, including a more detailed discussion of these and other risks and uncertainties that could affect Pennichuck Corporation' s forward-looking statements. We undertake no obligation to update or revise publicly any forward-looking statement.

Pennichuck Corporation and Subsidiaries
Comparative Financial Results

Quarter Ended September 30:	**2011**	**2010**
Operating Revenues	$11,901,000	$11,765,000
Operating Income	$4,869,000	$4,762,000
Net Income	$2,377,000	$2,273,000
Earnings Per Common Share:		
Basic	$0.51	$0.49
Diluted	$0.50	$0.48
Weighted Average Common Shares Outstanding:		
Basic	4,685,170	4,660,077
Diluted	4,759,575	4,696,338

Nine Months Ended September 30:	**2011**	**2010**
Operating Revenues	$30,214,000	$28,294,000
Operating Income	$9,709,000	$8,448,000
Net Income	$3,966,000	$3,344,000
Earnings Per Common Share:		
Basic	$0.85	$0.72
Diluted	$0.83	$0.71
Weighted Average Common Shares Outstanding:		
Basic	4,682,220	4,657,404
Diluted	4,755,818	4,685,389

Condensed Consolidated Balance Sheets (parenthetical) (USD $) In Thousands, except Share data	Sep. 30, 2011	Dec. 31, 2010
Allowance for Doubtful Accounts Receivable	$ 48	$ 54
Common Stock, Par or Stated Value Per Share	$ 1	$ 1
Common Stock, Shares Authorized	11,500,000	11,500,000
Common Stock, Shares, Issued	4,690,237	4,677,105
Common Stock, Shares, Outstanding	4,689,035	4,675,903
Treasury Stock, Shares	1,202	1,202
Preferred Stock, No Par Value		
Preferred Stock, Shares Authorized	100,000	100,000
Series A Preferred Stock [Member]		
Preferred Stock, Shares Authorized	15,000	15,000
Preferred Stock, Par or Stated Value Per Share	$ 100	$ 100

Condensed Consolidated Statements Of Income And Comprehensive Income (USD $) In Thousands, except Share data	3 Months Ended		9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010	Sep. 30, 2011	Sep. 30, 2010
Condensed Consolidated Statements Of Income And Compreshensive Income				
Operating Revenues	$ 11,901	$ 11,765	$ 30,214	$ 28,294
Operating Expenses:				
Operations and maintenance	4,918	4,980	14,054	13,817
Depreciation and amortization	1,049	1,049	3,147	3,152
Taxes other than income taxes	1,065	974	3,304	2,877
Total Operating Expenses	7,032	7,003	20,505	19,846
Operating Income	4,869	4,762	9,709	8,448
Eminent Domain and Merger-related Costs	(99)	(159)	(672)	(392)
Net Loss from Investment Accounted for Under the Equity Method	(1)	(2)	(5)	(5)
Other Expense, Net	(1)	(1)	(19)	(1)
Allowance for Funds Used During Construction		4	4	14
Interest Income		1		2
Interest Expense	(831)	(841)	(2,449)	(2,528)
Income Before Provision for Income Taxes	3,937	3,764	6,568	5,538
Provision for Income Taxes	1,560	1,491	2,602	2,194
Net Income	2,377	2,273	3,966	3,344
Other Comprehensive Loss, Net of Tax:				
Unrealized loss on derivatives	(285)	(105)	(304)	(385)
Comprehensive Income	$ 2,092	$ 2,168	$ 3,662	$ 2,959
Earnings per Common Share:				
Basic	$ 0.51	$ 0.49	$ 0.85	$ 0.72
Diluted	$ 0.50	$ 0.48	$ 0.83	$ 0.71
Weighted Average Common Shares Outstanding:				
Basic	4,685,170	4,660,077	4,682,220	4,657,404
Diluted	4,759,575	4,696,338	4,755,818	4,685,389
Dividends Paid per Common Share	$ 0.185	$ 0.18	$ 0.555	$ 0.54

Document and Entity Information	9 Months Ended Sep. 30, 2011	Nov. 01, 2011
Document and Entity Information		
Document Type	10-Q	
Amendment Flag	false	
Document Period End Date	Sep. 30, 2011	
Entity Registrant Name	PENNICHUCK CORP	
Entity Central Index Key	0000788885	
Current Fiscal Year End Date	--12-31	
Entity Filer Category	Accelerated Filer	
Entity Common Stock, Shares Outstanding		4,690,329
Document Fiscal Period Focus	Q3	
Document Fiscal Year Focus	2011	

Equity Investment in Unconsolidated Company	9 Months Ended Sep. 30, 2011
Equity Investment In Unconcolidated Company	
Equity Investment in Unconsolidated Company	**Note 7 — Equity Investment in Unconsolidated Company** As of September 30, 2011 and December 31, 2010, Southwood held a 50 percent ownership interest in a limited liability company known as HECOP IV. HECOP IV, whose assets and liabilities are not included in the accompanying condensed consolidated balance sheets, owns approximately nine acres of undeveloped land in Merrimack, New Hampshire. The remaining ownership interest in HECOP IV is held by John P. Stabile II, principal owner of H. J. Stabile & Son, Inc. The short-term cash needs of HECOP IV are expected to be funded by its partners on an on-going basis and are not expected to be significant. Southwood uses the equity method of accounting for its investment in HECOP IV and accordingly, its investment is adjusted for its share of losses. Southwood's share of losses is included under "Net Loss from Investment Accounted for Under the Equity Method" in the accompanying condensed consolidated statements of income.

Stock-based Compensation Plan

9 Months Ended Sep. 30, 2011

Stock-based Compensation Plan

Stock-based Compensation Plan

Note 3 — Stock-based Compensation Plan

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

The impact of stock-based compensation on the condensed consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2011 and 2010 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2011	2010	2011	2010
Stock-based compensation	$24	$32	$87	$207
Income taxes	(10)	(13)	(35)	(83)
Stock-based compensation, net of tax	$14	$19	$52	$124

The total compensation cost related to non-vested stock option awards was approximately $46,000, net of tax, as of September 30, 2011. These costs are expected to be recognized during the remainder of 2011 through 2013.

We have periodically granted our officers and key employees incentive and non-qualified stock options on a discretionary basis pursuant to the 2009 Equity Incentive Plan (the "2009 Plan"); however, during the term of the Merger Agreement, we are not permitted to issue options or other forms of equity.

Options issued under the 2009 Plan during the three and nine months ended September 30, 2011 and 2010 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Options issued under the 2009 Plan	—	—	—	71,900

As of September 30, 2011, 111,934 shares were available for future grant under the 2009 Plan.

Income Taxes	9 Months Ended Sep. 30, 2011
Income Taxes	
Income Taxes	**Note 8—Income Taxes** Income taxes are recorded using the accrual method. The provision for federal and state income taxes is based on income reported in our condensed consolidated financial statements as adjusted for items recognized differently for income tax purposes. In determining the income reported in our condensed consolidated financial statements, all merger-related costs, which totaled approximately $741,000 in the aggregate as of September 30, 2011, have been expensed as incurred. Furthermore, based upon the nature and timing of such costs and without assuming that the planned merger will be completed, we have elected to treat such costs as timing differences in determining the provision for income taxes in our condensed consolidated financial statements. Accordingly, we have recorded an income tax expense benefit for such costs in the same periods in which such costs have been incurred and recorded. If and when the proposed merger actually closes, these costs may no longer be deductible in determining the income tax provision and would be capitalized as part of the merger consideration.

Description of Business, Acquisition of Company and Summary of Significant Accounting Policies	9 Months Ended Sep. 30, 2011
Description of Business, Acquisition of Company and Summary of Significant Accounting Policies	
Description of Business, Acquisition of Company and Summary of Significant Accounting Policies	**Note 1 — Description of Business, Acquisition of Company and Summary of Significant Accounting Policies**

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

Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The condensed consolidated balance sheet amounts shown under the December 31, 2010 column have been derived from the audited financial statements of our Company as contained in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission ("SEC").

Description of Business:

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

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

Acquisition of Company:

On November 11, 2010, the City of Nashua (the "City") and the Company entered into a definitive merger agreement (the "Merger Agreement") pursuant to which the City will, subject to a number of conditions precedent and contingencies, purchase all of the outstanding common stock and common stock equivalents of Pennichuck Corporation for $29.00 per share, or approximately $138 million, in cash. Pursuant to the terms of a Settlement Agreement that was entered into contemporaneously with the Merger Agreement, the Company and the City have agreed that this transaction constitutes full settlement of their eminent domain dispute.

The Shareholders of the Company approved the Merger Agreement at a Special Shareholder Meeting on June 15, 2011.

The merger is subject to approval by the NHPUC. The City's obligation to complete the transaction is subject to (a) there being no approval conditions imposed by the NHPUC that would materially adversely affect the City's expected economic benefits from the transaction, and (b) the City's ability to obtain appropriate financing after all other conditions precedent have been met.

Relating to NHPUC approval of the proposed merger with the City, on October 18, 2011, the Company, the City, the NHPUC Staff and certain other parties entered into and filed with the NHPUC a Settlement Agreement (the "2011 Settlement Agreement") in which they recommended that the NHPUC approve the merger. The final hearing before the NHPUC was held on October 25, 2011 and all parties are now awaiting the ruling of the NHPUC. The NHPUC's ruling is subject to appeal during the 30-day period following its issuance; thereafter, if no appeal is filed, it becomes final.

Additionally, under the terms of the Merger Agreement, the City, in effect, has 90 days after the NHPUC ruling becomes final to complete the financing. Therefore, while the merger could possibly be completed by December 31, 2011, we believe that if the NHPUC approves the merger, it is more likely to be completed in the first quarter of 2012.

Summary of Significant Accounting Policies:

(a) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-Q and Regulation S-X of the SEC. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring and non-recurring adjustments) considered necessary for a fair presentation have been included.

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

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

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

(c) Property, Plant and Equipment

The components of property, plant and equipment as of September 30, 2011 and December 31, 2010 were as follows:

	As of	
(in thousands)	September 30, 2011	December 31, 2010
Utility Property:		
Land and land rights	$2,946	$2,994
Source of supply	49,449	49,304
Pumping & purification	28,413	28,072
Transmission & distribution, including Services, meters and hydrants	112,874	109,817
General and other equipment	9,853	9,496
Intangible plant	759	747
Construction work in progress	993	684
Total utility property	205,287	201,114
Total non-utility property	5	5
Total property, plant & equipment	205,292	201,119
Less accumulated depreciation	(45,654)	(42,323)
Property, plant and equipment, net	$159,638	$158,796

(d) Cash and Cash Equivalents

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

(e) Concentration of Credit Risks

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

(f) Deferred Charges and Other Assets

Deferred charges include certain regulatory assets and costs of obtaining debt financing. Regulatory assets are amortized over the periods they are recovered through NHPUC-authorized water rates. Deferred financing costs are amortized over the term of the related bonds and notes. Our Company's utility subsidiaries have recorded certain regulatory assets in cases where the NHPUC has permitted, or is expected to permit, recovery of these costs over future periods. Currently, the regulatory assets are being amortized over periods ranging from four to 25 years. Deferred charges and other assets as of September 30, 2011 and December 31, 2010 consisted of the following:

	As of		
(in thousands)	September 30, 2011	December 31, 2010	Recovery Period
Regulatory assets:			
Source development charges	$890	$932	5 – 25
Miscellaneous studies	537	681	4 – 25
Sarbanes-Oxley costs	98	244	5
Unrecovered pension and post-retirement benefits expense	3,822	3,960	
Total regulatory assets	5,347	5,817	
Franchise fees and other	—	7	
Supplemental executive retirement plan asset	690	636	
Deferred financing costs	3,883	4,042	
Total deferred charges and other assets	$9,920	$10,502	

We expect to recover the deferred pension and other post-retirement amounts consistent with the anticipated expense recognition of the pension and other post-retirement costs.

(g) Revenues

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

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

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

(h) Earnings Per Share

Basic net income per share is computed using the weighted average number of common shares outstanding for a period. Diluted net income per share is computed using the weighted average number of common and dilutive potential common shares outstanding for the period. For the three and nine months ended September 30, 2011 and 2010, dilutive potential common shares consisted of outstanding stock options.

The dilutive effect of outstanding stock options is computed using the treasury stock method. Calculations of the basic and diluted net income per common share and potential common share for the three and nine months ended September 30, 2011 and 2010 were as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(in thousands, except share and per share data)	**2011**	**2010**	**2011**	**2010**
Basic net income per share	$0.51	$0.49	$0.85	$0.72
Dilutive effect of unexercised stock options	(0.01)	(0.01)	(0.02)	(0.01)
Diluted net income per share	$0.50	$0.48	$0.83	$0.71
Numerator:				
Net income	$2,377	$2,273	$3,966	$3,344
Denominator:				
Basic weighted average common shares outstanding	4,685,170	4,660,077	4,682,220	4,657,404
Dilutive effect of unexercised stock options	74,405	36,261	73,598	27,985
Diluted weighted average common shares outstanding	4,759,575	4,696,338	4,755,818	4,685,389

The following table lists the number of options to purchase shares of common stock that was not included in the computation of diluted earnings per share for the three and nine months ended September 30, 2011 and 2010 because their effect would have been antidilutive.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2011	**2010**	**2011**	**2010**
Number of options to purchase shares of common stock excluded from the computation of diluted earnings per share	—	—	—	34,200

(i) Interest Rate Swap

As of September 30, 2011, we had an interest rate swap that qualifies as a derivative. This financial instrument is designated as a cash flow hedge and is used to mitigate interest rate risk associated with our outstanding $4.3 million loan that has a floating interest rate based on the three-month London Interbank Offered Rate ("LIBOR") plus 1.75% as of September 30, 2011. The combined effect of the LIBOR-based borrowing formula and the swap produces an "all-in fixed borrowing cost" equal to 5.95%. The fair value of this derivative, as of September 30, 2011 and December 31, 2010, included in our condensed consolidated balance sheet under "Other deferred credits and other reserves" was $820,000 and $314,000, respectively. Changes in the fair value of this derivative were deferred in accumulated other comprehensive loss.

Swap settlements are recorded in the income statement with the hedged item as interest expense. During the three months ended September 30, 2011 and 2010, $43,000 and $43,000, respectively, was reclassified from accumulated other comprehensive loss to interest expense as a result of swap settlements. During the nine months ended September 30, 2011 and 2010, $128,000 and $102,000, respectively, was reclassified from accumulated other comprehensive loss to interest expense as a result of swap settlements. We expect to reclassify approximately $161,000 from accumulated other comprehensive loss to interest expense as a result of swap settlements, over the next twelve months.

(j) Recently Issued Accounting Standards

On May 12, 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, "*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and IFRSs."* This ASU represents the converged guidance of the FASB and the International Accounting Standards Board (the "Boards") on fair value measurement. The collective efforts of the Boards have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements. The amendments are effective for public entities for interim and annual periods beginning after December 15, 2011, and should be applied prospectively. Early adoption is not permitted for public entities; therefore, we currently expect to adopt this standard in the first quarter of 2012. We are currently reviewing the effect this new pronouncement will have on our consolidated financial statements.

On June 16, 2011, the FASB issued ASU No. 2011-05, "*Comprehensive Income (Topic 220): Presentation of Comprehensive Income."* This ASU amends the ASC to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single statement of comprehensive income or in two separate but consecutive statements. The amendments are effective for public entities for interim and annual periods beginning after December 15, 2011, and should be applied retrospectively. Early adoption is permitted for public entities. We currently expect to adopt this standard in the fourth quarter of 2011. We are currently reviewing the effect this new pronouncement will have on our consolidated financial statements.

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

9 Months Ended Sep. 30, 2011

Note 4 — Commitments and Contingencies

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

In 2002, the City of Nashua (the "City") began an effort to acquire all or a significant portion of Pennichuck Water's assets through an eminent domain proceeding under New Hampshire Revised Statutes Annotated Chapter 38, as well as the assets of the Company's Pennichuck East and Pittsfield Aqueduct utility subsidiaries. As discussed in Note 1, "Description of Business, Acquisition of Company and Summary of Significant Accounting Policies" in Part I, Item I, in this Quarterly Report on Form 10-Q, on November 11, 2010, we entered into a Merger Agreement with the City pursuant to which the City will, subject to a number of conditions precedent and contingencies, purchase all the outstanding common stock and common stock equivalents of Pennichuck Corporation for $29.00 per share. Concurrently, we and the City also agreed to terminate the current eminent domain proceeding as of the end of the term of the Merger Agreement and regardless of whether the merger is ultimately completed.

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

We entered into an agreement in April 2002 to be acquired by Aqua America, Inc. (then named Philadelphia Suburban Corporation) by merger. The merger was subject to several conditions, including approval by our shareholders and approval by the NHPUC.

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

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

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

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

On November 11, 2010, the City and the Company entered into a Merger Agreement pursuant to which the City will, subject to a number of conditions precedent and contingencies, purchase all of the outstanding common stock and common stock equivalents of the Company for $29.00 per share, or approximately $138 million, in cash. On January 11, 2011, the City's Board of Aldermen voted 14 — 1 to approve and ratify the Merger Agreement and the issuance of bonds to finance the acquisition.

The shareholders of the Company approved the Merger Agreement at a Special Shareholder Meeting held on June 15, 2011.

The consummation of the merger is also subject to approval by the NHPUC. If the NHPUC approves the merger, the City's obligation to complete the transaction is subject to (a) there being no burdensome approval conditions imposed by the NHPUC that would materially adversely affect the City's expected economic benefits from the transaction and (b) the City's ability to obtain appropriate financing after all the conditions precedent (including those specified above and other customary closing conditions) have been met.

Relating to NHPUC approval of the proposed merger with the City, on October 18, 2011, the Company, the City, the NHPUC Staff and certain other parties entered into and filed with the NHPUC the 2011 Settlement Agreement in which they recommended that the NHPUC approve the merger. The final hearing before the NHPUC was held on October 25, 2011 and all parties are now awaiting the ruling of the NHPUC. The NHPUC's ruling is subject to appeal during the 30-day period following its issuance; thereafter, if no appeal is filed, it becomes final.

Additionally, under the terms of the Merger Agreement, the City, in effect, has 90 days after the NHPUC ruling becomes final to complete the financing. Therefore, while the merger could possibly be completed by December 31, 2011, we believe that if the NHPUC approves the merger, it is more likely to be completed in the first quarter of 2012.

Other Eminent Domain Proceedings

The Town of Pittsfield, New Hampshire voted at its town meeting in 2003 to acquire the assets of our Company's Pittsfield Aqueduct subsidiary by eminent domain. In April 2003, the Town notified our Company in writing of the Town's desire to acquire the assets. Our Company responded that it did not wish to sell the assets. Thereafter, no further action was taken by the Town until

March 2005, when the Town voted to appropriate $60,000 to the eminent domain process. On March 22, 2005, our Company received a letter from the Town reiterating the Town's desire to acquire the assets of our Company's Pittsfield Aqueduct subsidiary, and by letter dated May 10, 2005, our Company responded that it did not wish to sell them. Our Company does not have a basis to evaluate whether the Town will actively pursue the acquisition of our Company's Pittsfield Aqueduct assets by eminent domain, but since the date of the Town's letter to our Company, the Town has not taken any additional steps required under NHRSA Ch. 38 to pursue eminent domain.

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

Our Company cannot predict the ultimate outcome of these matters.

Business Segment Reporting

Business Segment Reporting
Business Segment Reporting

9 Months Ended
Sep. 30, 2011

Note 5 — Business Segment Reporting

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

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

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

The line titled "Other" is not a reportable segment and is shown only to reconcile to the total amounts shown in our condensed consolidated financial statements. The following table presents information about our primary business segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2011	2010	2011	2010
Operating revenues:				
Regulated water utility operations	$11,213	$11,118	$28,208	$26,442
Water management services	685	644	1,999	1,845
Other	3	3	7	7
Total operating revenues	$11,901	$11,765	$30,214	$28,294
Net income (loss):				
Regulated water utility operations	$2,396	$2,300	$4,279	$3,485
Water management services	65	64	134	106
Other	(84)	(91)	(447)	(247)
Total net income (loss)	$2,377	$2,273	$3,966	$3,344

	As of	
(in thousands)	September 30, 2011	December 31, 2010
Total assets:		
Regulated water utility operations	$177,720	$176,098
Water management services	165	127
Other	6,927	5,376
Total assets	$184,812	$181,601

Financial Measurement and Fair Value of Financial Instruments	9 Months Ended Sep. 30, 2011
Financial Measurement and Fair Value of Financial Instruments	
Financial Measurement and Fair Value of Financial Instruments	

Note 6 — Financial Measurement and Fair Value of Financial Instruments

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

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

Level 2: Based on significant observable inputs.

Level 3: Based on significant unobservable inputs.

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

For assets and liabilities measured at fair value on a recurring basis, the fair value measurement by levels within the fair value hierarchy used as of September 30, 2011 and December 31, 2010 was as follows:

(in thousands)	Total	Level 1	Level 2	Level 3
September 30, 2011:				
Interest rate swap	$(820)	$—	$(820)	$—
December 31, 2010:				
Interest rate swap	$(314)	$—	$(314)	$—

The carrying value of certain financial instruments included in the accompanying condensed consolidated balance sheet, along with the related fair value, as of September 30, 2011 and December 31, 2010 was as follows:

	September 30, 2011		December 31, 2010	
(in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities:				
Long-term debt	$(60,189)	$(53,360)	$(60,719)	$(56,401)
Interest rate swap liability	$(820)	$(820)	$(314)	$(314)

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The fair value for long-term debt shown above does not purport to represent the amounts at which those debt obligations would be settled. The fair market value of our interest rate swap represents the estimated cost to terminate this agreement as of September 30, 2011 based upon the then-current interest rates and the related credit risk.

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

Condensed Consolidated Statements of Cash Flows (USD $) In Thousands	9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010
Operating Activities:		
Net Income	$ 3,966	$ 3,344
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,311	3,320
Amortization of deferred investment tax credits	(25)	(25)
Provision for deferred income taxes	2,423	447
Equity component of allowance for funds used during construction	(2)	(7)
Undistributed loss in real estate partnership	5	5
Stock-based compensation expense	87	207
Changes in assets and liabilities	(1,460)	366
Net cash provided by operating activities	8,305	7,657
Investing Activities:		
Purchases of property, plant and equipment, including debt component of allowance for funds used during construction	(3,200)	(4,959)
Increase in investment in real estate partnership and deferred land costs	(34)	(17)
Net cash used in investing activities	(3,234)	(4,976)
Financing Activities:		
Payments on long-term debt	(1,289)	(6,190)
Contributions in aid of construction	5	215
Proceeds from long-term borrowings	750	5,602
Debt issuance costs	(31)	(43)
Proceeds from issuance of common stock	187	181
Dividends paid	(2,599)	(2,515)
Net cash used in financing activities	(2,977)	(2,750)
Increase (decrease) in cash and cash equivalents	2,094	(69)
Cash and cash equivalents, beginning of period	2,383	1,570
Cash and cash equivalents, end of period	4,477	1,501
Cash paid (refunded) during the period for:		
Interest	2,628	2,788
Income taxes	(438)	718
Non-cash items:		
Contributions in aid of construction	$ 1,573	$ 179

Post-retirement Benefit Plans

Post-retirement Benefit Plans

Post-retirement Benefit Plans

9 Months Ended
Sep. 30, 2011

Note 2 — Post-retirement Benefit Plans

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

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

Upon retirement, if a qualifying employee elects to receive benefits, we pay up to a maximum monthly benefit of $293 based on eligibility and years of service.

During the three and nine months ended September 30, 2011 and 2010, we made the following contributions to the DB Plan:

(in thousands)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Amount of contribution to the Plan	$494	$134	$837	$380

In order to satisfy the minimum funding requirements of the Employee Retirement Income Security Act of 1974, we anticipate that we will contribute approximately $1.0 million to the DB Plan in 2011.

The components of net DB Plan costs were as follows:

(in thousands)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Service cost, benefits earned during the period	$171	$164	$512	$492
Interest cost on projected benefit obligation	165	155	494	464
Expected return on plan assets	(135)	(124)	(403)	(372)
Recognized net actuarial loss	42	42	127	127
Net periodic benefit cost	$243	$237	$730	$711

During the three and nine months ended September 30, 2011 and 2010, we made the following contributions to the OPEB Plans.

(in thousands)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Amount of contribution into the program	$14	$10	$39	$31

The components of net OPEB Plans costs were as follows:

(in thousands)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Service cost, benefits earned during the period	$30	$32	$91	$95
Interest cost on accumulated post-retirement and post-employment benefit obligation	35	35	104	104
Expected return on plan assets	(14)	(13)	(42)	(37)
Amortization of prior service cost	5	—	15	—
Recognized net actuarial loss	(2)	5	(6)	16
Net periodic benefit cost	$54	$59	$162	$178

The net periodic pension and other post-retirement benefit costs were estimated based on 2010 year end participant census data.

Condensed Consolidated Balance Sheets (USD $) In Thousands	Sep. 30, 2011	Dec. 31, 2010
ASSETS		
Property, Plant and Equipment, net	$ 159,638	$ 158,796
Current Assets:		
Cash and cash equivalents	4,477	2,383
Accounts receivable, net of allowance of $48 as of September 30, 2011 and $54 as of December 31, 2010	2,420	2,153
Unbilled revenues	4,326	2,389
Materials and supplies	762	743
Deferred and refundable income taxes	49	717
Prepaid expenses	580	1,307
Total Current Assets	12,614	9,692
Other Assets:		
Deferred land costs	2,528	2,497
Deferred charges and other assets	9,920	10,502
Investment in real estate partnership	112	114
Total Other Assets	12,560	13,113
TOTAL ASSETS	184,812	181,601
SHAREHOLDERS' EQUITY AND LIABILITIES		
Common stock - $1 par value; Authorized - 11,500,000 shares in 2011 and 2010; Issued - 4,690,237 and 4,677,105 shares, respectively; Outstanding - 4,689,035 and 4,675,903 shares, respectively	4,690	4,677
Additional paid in capital	41,573	41,312
Retained earnings	11,855	10,488
Accumulated other comprehensive loss	(492)	(189)
Treasury stock, at cost; 1,202 shares in 2011 and 2010	(138)	(138)
Total Shareholders' Equity	57,488	56,150
Preferred stock, $100 par value, 15,000 shares authorized; and, no par value, 100,000 shares authorized, no shares issued in 2011 and 2010	0	0
Long-term Debt, Less Current Portion	59,116	59,666
Current Liabilities:		
Current portion of long-term debt	1,073	1,053
Accounts payable	1,018	1,972
Accrued interest payable	349	701
Accrued wages and payroll withholding	495	565
Accrued liability - retainage	136	178
Other current liabilities	406	406
Total Current Liabilities	3,477	4,875
Deferred Credits and Other Reserves:		
Deferred income taxes	21,400	19,180
Other deferred credits and other reserves	10,396	9,846

Total Deferred Credits and Other Reserves	31,796	29,026
Contributions in Aid of Construction	32,935	31,884
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	$ 184,812	$ 181,601