

MIDDLESEX WATER CO  
Form 10-Q  
July 30, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 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 June 30, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-422

MIDDLESEX WATER COMPANY  
(Exact name of registrant as specified in its charter)

New Jersey  
(State of incorporation)

22-1114430  
(IRS employer identification no.)

1500 Ronson Road, Iselin, NJ 08830  
(Address of principal executive offices, including zip code)

(732) 634-1500  
(Registrant's telephone number, including area code)

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

Yes  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 during the preceding 12 months (or such shorter period that the registrant was required to submit and post files).

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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.

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 Act).

Yes  No

The number of shares outstanding of each of the registrant's classes of common stock, as of July 30, 2010: Common Stock, No Par Value: 15,511,414 shares outstanding.

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MIDDLESEX WATER COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)  
(In thousands except per share amounts)

|  | Three Months Ended June<br>30, |           | Six Months Ended June<br>30, |           |
|--|--------------------------------|-----------|------------------------------|-----------|
|  | 2010                           | 2009      | 2010                         | 2009      |
| Operating Revenues                               | \$ 26,538                      | \$ 23,083 | \$ 48,184                    | \$ 43,665 |
| Operating Expenses:                              |                                |           |                              |           |
| Operations and Maintenance                       | 13,576                         | 12,893    | 27,170                       | 25,936    |
| Depreciation                                     | 2,236                          | 2,111     | 4,439                        | 4,196     |
| Other Taxes                                      | 2,832                          | 2,532     | 5,391                        | 4,984     |
| Total Operating Expenses                         | 18,644                         | 17,536    | 37,000                       | 35,116    |
| Operating Income                                 | 7,894                          | 5,547     | 11,184                       | 8,549     |
| Other Income (Expense):                          |                                |           |                              |           |
| Allowance for Funds Used During Construction     | 348                            | 241       | 642                          | 482       |
| Other Income                                     | 189                            | 150       | 360                          | 328       |
| Other Expense                                    | (33 )                          | (7 )      | (53 )                        | (18 )     |
| Total Other Income, net                          | 504                            | 384       | 949                          | 792       |
| Interest Charges                                 | 1,882                          | 1,766     | 3,306                        | 3,158     |
| Income before Income Taxes                       | 6,516                          | 4,165     | 8,827                        | 6,183     |
| Income Taxes                                     | 2,092                          | 1,319     | 2,843                        | 1,976     |
| Net Income                                       | 4,424                          | 2,846     | 5,984                        | 4,207     |
| Preferred Stock Dividend Requirements            | 52                             | 52        | 104                          | 104       |
| Earnings Applicable to Common Stock              | \$ 4,372                       | \$ 2,794  | \$ 5,880                     | \$ 4,103  |
| Earnings per share of Common Stock:              |                                |           |                              |           |
| Basic  | \$ 0.31                        | \$ 0.21   | \$ 0.43                      | \$ 0.31   |
| Diluted  | \$ 0.31                        | \$ 0.21   | \$ 0.42                      | \$ 0.31   |
| Average Number of<br>Common Shares Outstanding : |                                |           |                              |           |
| Basic  | 13,972                         | 13,434    | 13,756                       | 13,424    |

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|                                      |           |           |           |           |
|--------------------------------------|-----------|-----------|-----------|-----------|
| Diluted                              | 14,235    | 13,697    | 14,019    | 13,687    |
| Cash Dividends Paid per Common Share | \$ 0.1800 | \$ 0.1775 | \$ 0.3600 | \$ 0.3550 |

See Notes to Condensed Consolidated Financial Statements.

MIDDLESEX WATER COMPANY  
CONDENSED CONSOLIDATED BALANCE  
SHEETS  
(Unaudited )  
(In thousands)

|   |  | June 30,          | December 31,      |
|---|--|-------------------|-------------------|
|   |  | 2010              | 2009              |
| <b>ASSETS</b>                             |  |                   |                   |
| <b>UTILITY PLANT:</b>                     | Water Production                               | \$ 115,896        | \$ 113,124        |
|   | Transmission and Distribution                  | 301,839           | 293,269           |
|   | General  | 42,461            | 29,631            |
|   | Construction Work in Progress                  | 9,970             | 17,547            |
|   | <b>TOTAL</b>                                   | <b>470,166</b>    | <b>453,571</b>    |
|   | Less Accumulated Depreciation                  | 80,675            | 77,027            |
|   | <b>UTILITY PLANT - NET</b>                     | <b>389,491</b>    | <b>376,544</b>    |
| <b>CURRENT ASSETS:</b>                    |  |                   |                   |
|   | Cash and Cash Equivalents                      | 4,038             | 4,278             |
|   | Accounts Receivable, net                       | 11,082            | 10,616            |
|   | Unbilled Revenues                              | 6,785             | 4,424             |
|   | Materials and Supplies (at average cost)       | 1,795             | 1,618             |
|   | Prepayments                                    | 1,567             | 1,109             |
|   | <b>TOTAL CURRENT ASSETS</b>                    | <b>25,267</b>     | <b>22,045</b>     |
| <b>DEFERRED CHARGES AND OTHER ASSETS:</b> |  |                   |                   |
|   | Unamortized Debt Expense                       | 2,777             | 2,856             |
|   | Preliminary Survey and Investigation Charges   | 7,074             | 6,999             |
|   | Regulatory Assets                              | 32,636            | 33,081            |
|   | Operations Contracts Fees Receivable           | 3,715             | 3,715             |
|   | Restricted Cash                                | 4,916             | 5,266             |
|   | Non-utility Assets - Net                       | 7,016             | 7,134             |
|   | Other  | 419               | 446               |
|   | <b>TOTAL DEFERRED CHARGES AND OTHER ASSETS</b> | <b>58,553</b>     | <b>59,497</b>     |
|   | <b>TOTAL ASSETS</b>                            | <b>\$ 473,311</b> | <b>\$ 458,086</b> |
| <b>CAPITALIZATION AND LIABILITIES</b>     |  |                   |                   |
| <b>CAPITALIZATION:</b>                    | Common Stock, No Par Value                     | \$ 138,660        | \$ 109,366        |
|   | Retained Earnings                              | 31,154            | 30,265            |
|   | <b>TOTAL COMMON EQUITY</b>                     | <b>169,814</b>    | <b>139,631</b>    |
|   | Preferred Stock                                | 3,373             | 3,373             |
|   | Long-term Debt                                 | 132,892           | 124,910           |
|   | <b>TOTAL CAPITALIZATION</b>                    | <b>306,079</b>    | <b>267,914</b>    |
| <b>CURRENT LIABILITIES:</b>               | Current Portion of Long-term Debt              | 4,243             | 3,710             |
|   | Notes Payable                                  | 13,500            | 42,850            |
|   | Accounts Payable                               | 5,224             | 4,348             |
|   | Accrued Taxes                                  | 9,059             | 5,686             |
|   | Accrued Interest                               | 1,607             | 1,861             |
|   |  | 889               | 861               |

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|  |  |                   |                   |
|--|--|-------------------|-------------------|
|  | Unearned Revenues and Advanced Service Fees          |                   |                   |
|  | Other  | 1,344             | 1,352             |
|  | <b>TOTAL CURRENT LIABILITIES</b>                     | <b>35,866</b>     | <b>60,668</b>     |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)</b> |  |                   |                   |
| <b>DEFERRED CREDITS</b>                                | Customer Advances for Construction                   | 20,999            | 20,806            |
| <b>AND OTHER LIABILITIES:</b>                          | Accumulated Deferred Investment Tax Credits          | 1,264             | 1,303             |
|  | Accumulated Deferred Income Taxes                    | 28,570            | 27,788            |
|  | Employee Benefit Plans                               | 25,412            | 25,723            |
|  | Regulatory Liability - Cost of Utility Plant Removal | 7,045             | 6,738             |
|  | Other  | 211               | 275               |
|  | <b>TOTAL DEFERRED CREDITS AND OTHER LIABILITIES</b>  | <b>83,501</b>     | <b>82,633</b>     |
| <b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>            |  | <b>47,865</b>     | <b>46,871</b>     |
|  | <b>TOTAL CAPITALIZATION AND LIABILITIES</b>          | <b>\$ 473,311</b> | <b>\$ 458,086</b> |

See Notes to Condensed Consolidated Financial Statements.

MIDDLESEX WATER COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 (In thousands)

|  | Six Months Ended June 30, |                  |
|--|---------------------------|------------------|
|  | 2010                      | 2009             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                           |                  |
| Net Income   | \$ 5,984                  | \$ 4,207         |
| Adjustments to Reconcile Net Income to<br>Net Cash Provided by Operating Activities: |                           |                  |
| Depreciation and Amortization  | 4,828                     | 4,396            |
| Provision for Deferred Income Taxes and ITC  | 579                       | 405              |
| Equity Portion of AFUDC  | (396 )                    | (264 )           |
| Cash Surrender Value of Life Insurance   | 219                       | 116              |
| Stock Compensation Expense   | 193                       | 154              |
| Changes in Assets and Liabilities:   |                           |                  |
| Accounts Receivable  | (466 )                    | 571              |
| Unbilled Revenues  | (2,361 )                  | (740 )           |
| Materials & Supplies   | (177 )                    | (82 )            |
| Prepayments  | (458 )                    | (237 )           |
| Other Assets   | (399 )                    | (638 )           |
| Accounts Payable   | 875                       | (1,258 )         |
| Accrued Taxes  | 3,373                     | 620              |
| Accrued Interest   | (254 )                    | (301 )           |
| Employee Benefit Plans   | 250                       | 871              |
| Unearned Revenue & Advanced Service Fees   | 28                        | 3                |
| Other Liabilities  | (36 )                     | (462 )           |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                     | <b>11,782</b>             | <b>7,361</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                           |                  |
| Utility Plant Expenditures, Including AFUDC of \$246 in 2010, \$218 in 2009          | (15,981 )                 | (11,943 )        |
| Restricted Cash  | 349                       | 456              |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   | <b>(15,632 )</b>          | <b>(11,487 )</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                           |                  |
| Redemption of Long-term Debt   | (1,485 )                  | (15,908 )        |
| Proceeds from Issuance of Long-term Debt   | 10,000                    | 12,014           |
| Net Short-term Bank (Payments)/Borrowings  | (29,350 )                 | 13,133           |
| Deferred Debt Issuance Expenses  | -                         | (116 )           |
| Common Stock Issuance Expense  | (111 )                    | -                |
| Restricted Cash  | -                         | (22 )            |
| Proceeds from Issuance of Common Stock   | 29,102                    | 762              |
| Payment of Common Dividends  | (4,879 )                  | (4,763 )         |
| Payment of Preferred Dividends   | (104 )                    | (104 )           |
| Construction Advances and Contributions-Net  | 437                       | (702 )           |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                                     | <b>3,610</b>              | <b>4,294</b>     |



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|  |          |          |
|--|----------|----------|
| NET CHANGES IN CASH AND CASH EQUIVALENTS         | (240 )   | 168      |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 4,278    | 3,288    |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD       | \$ 4,038 | \$ 3,456 |

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:

|   |        |        |
|---|--------|--------|
| Utility Plant received as Construction Advances and Contributions | \$ 750 | \$ 993 |
|---|--------|--------|

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

Cash Paid During the Year for:

|                      |           |           |
|----------------------|-----------|-----------|
| Interest             | \$ 3,608  | \$ 3,484  |
| Interest Capitalized | \$ (246 ) | \$ (218 ) |
| Income Taxes         | \$ 79     | \$ 1,367  |

See Notes to Condensed Consolidated Financial Statements.

MIDDLESEX WATER COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF CAPITAL STOCK  
AND LONG-TERM DEBT  
(Unaudited)  
(In thousands)

|   | June 30,<br>2010  | December<br>31,<br>2009 |
|---|-------------------|-------------------------|
| <b>Common Stock, No Par Value</b>                                 |                   |                         |
| Shares Authorized -   | 40,000            |                         |
| Shares Outstanding -  | 2010 - 15,508     | \$ 138,660              |
|   | 2009 - 13,519     | \$ 109,366              |
| Retained Earnings   | 31,154            | 30,265                  |
| <b>TOTAL COMMON EQUITY</b>  | <b>\$ 169,814</b> | <b>\$ 139,631</b>       |
| <b>Cumulative Preferred Stock, No Par Value:</b>                  |                   |                         |
| Shares Authorized -   | 134               |                         |
| Shares Outstanding -  | 32                |                         |
| <b>Convertible:</b>   |                   |                         |
| Shares Outstanding, \$7.00 Series - 14                            | \$ 1,457          | \$ 1,457                |
| Shares Outstanding, \$8.00 Series - 7                             | 816               | 816                     |
| <b>Nonredeemable:</b>   |                   |                         |
| Shares Outstanding, \$7.00 Series - 1                             | 100               | 100                     |
| Shares Outstanding, \$4.75 Series - 10                            | 1,000             | 1,000                   |
| <b>TOTAL PREFERRED STOCK</b>                                      | <b>\$ 3,373</b>   | <b>\$ 3,373</b>         |
| <b>Long-term Debt:</b>  |                   |                         |
| 8.05%, Amortizing Secured Note, due December 20, 2021             | \$ 2,520          | \$ 2,581                |
| 6.25%, Amortizing Secured Note, due May 19, 2028                  | 7,525             | 7,735                   |
| 6.44%, Amortizing Secured Note, due August 25, 2030               | 5,647             | 5,787                   |
| 6.46%, Amortizing Secured Note, due September 19, 2031            | 5,927             | 6,067                   |
| 4.22%, State Revolving Trust Note, due December 31, 2022          | 603               | 622                     |
| 3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025       | 3,671             | 3,687                   |
| 3.49%, State Revolving Trust Note, due January 25, 2027           | 678               | 678                     |
| 4.03%, State Revolving Trust Note, due December 1, 2026           | 884               | 903                     |
| 4.00% to 5.00%, State Revolving Trust Bond, due September 1, 2021 | 564               | 625                     |
| 0.00%, State Revolving Fund Bond, due September 1, 2021           | 428               | 436                     |
| 3.64%, State Revolving Trust Note, due July 1, 2028               | 387               | 395                     |
| 3.64%, State Revolving Trust Note, due January 1, 2028            | 130               | 132                     |
| 6.59%, Amortizing Secured Note, due April 20, 2029                | 6,569             | 6,743                   |
| 7.05%, Amortizing Secured Note, due January 20, 2030              | 4,896             | 5,000                   |
| 5.69%, Amortizing Secured Note, due January 20, 2030              | 10,000            | -                       |
| <b>First Mortgage Bonds:</b>                                      |                   |                         |
| 5.20%, Series S, due October 1, 2022                              | 12,000            | 12,000                  |
| 5.25%, Series T, due October 1, 2023                              | 6,500             | 6,500                   |
| 5.25%, Series V, due February 1, 2029                             | 10,000            | 10,000                  |

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|  |            |            |
|--|------------|------------|
| 5.35%, Series W, due February 1, 2038            | 23,000     | 23,000     |
| 0.00%, Series X, due September 1, 2018           | 474        | 483        |
| 4.25% to 4.63%, Series Y, due September 1, 2018  | 650        | 650        |
| 0.00%, Series Z, due September 1, 2019           | 1,097      | 1,118      |
| 5.25% to 5.75%, Series AA, due September 1, 2019 | 1,560      | 1,560      |
| 0.00%, Series BB, due September 1, 2021          | 1,420      | 1,447      |
| 4.00% to 5.00%, Series CC, due September 1, 2021 | 1,790      | 1,790      |
| 5.10%, Series DD, due January 1, 2032            | 6,000      | 6,000      |
| 0.00%, Series EE, due September 1, 2024          | 5,540      | 5,642      |
| 3.00% to 5.50%, Series FF, due September 1, 2024 | 6,935      | 6,935      |
| 0.00%, Series GG, due August 1, 2026             | 1,507      | 1,530      |
| 4.00% to 5.00%, Series HH, due August 1, 2026    | 1,810      | 1,810      |
| 0.00%, Series II, due August 1, 2024             | 1,306      | 1,619      |
| 3.40% to 5.00%, Series JJ, due August 1, 2027    | 1,690      | 1,690      |
| 0.00%, Series KK, due August 1, 2028             | 1,677      | 1,705      |
| 5.00% to 5.50%, Series LL, due August 1, 2028    | 1,750      | 1,750      |
| SUBTOTAL LONG-TERM DEBT                          | 137,135    | 128,620    |
| Less: Current Portion of Long-term Debt          | (4,243 )   | (3,710 )   |
| TOTAL LONG-TERM DEBT                             | \$ 132,892 | \$ 124,910 |

See Notes to Condensed Consolidated Financial Statements.

MIDDLESEX WATER COMPANY  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation and Recent Matters

Middlesex Water Company (Middlesex or the Company) is the parent company and sole shareholder of Tidewater Utilities, Inc. (Tidewater), Tidewater Environmental Services, Inc. (TESI), Pinelands Water Company (Pinelands Water) and Pinelands Wastewater Company (Pinelands Wastewater) (collectively, Pinelands), Utility Service Affiliates, Inc. (USA), Utility Service Affiliates (Perth Amboy) Inc. (USA-PA), and Twin Lakes Utilities, Inc. (Twin Lakes). Southern Shores Water Company, LLC (Southern Shores) and White Marsh Environmental Systems, Inc. (White Marsh) are wholly-owned subsidiaries of Tidewater. The financial statements for Middlesex and its wholly-owned subsidiaries (the Company) are reported on a consolidated basis. All significant intercompany accounts and transactions have been eliminated.

The consolidated notes within the 2009 Annual Report on Form 10-K (the 2009 Form 10-K) are applicable to these financial statements and, in the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (including normal recurring accruals) to present fairly the financial position as of June 30, 2010, the results of operations for the three and six month periods ended June 30, 2010 and 2009 and cash flows for the six month periods ended June 30, 2010 and 2009. Information included in the Condensed Consolidated Balance Sheet as of December 31, 2009, has been derived from the Company's audited financial statements for the year ended December 31, 2009 included in the 2009 Form 10-K.

Certain reclassifications have been made to the prior year financial statements to conform with the current period presentation.

Recent Accounting Guidance

Topic 855, Subsequent Events - In February 2010, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2010-09, which amends Accounting Standards Codification (ASC) 855, Subsequent Events to address certain implementation issues related to an entity's requirement to perform and disclose subsequent-events procedures. ASU 2010-09 requires United States Securities and Exchange Commission (the SEC) filers to evaluate subsequent events through the date the financial statements are issued. All other entities are required to evaluate subsequent events through the date the financial statements are available to be issued. ASU 2010-09 exempts SEC filers from disclosing the date through which subsequent events have been evaluated. Adoption of ASU 2010-09 had no impact on the Company's results of operations, cash flows or financial position.

Topic 820, Fair Value Measurements and Disclosures - In January 2010, the FASB issued ASU 2010-06, which amends ASC 820, Fair Value Measurements and Disclosures, to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. The ASU also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. Further, the ASU amends guidance on employers' disclosures about postretirement benefit plan assets under ASC 715 to require that disclosures be provided by classes of assets instead of by major categories of assets. However, unlike the proposed ASU, the final ASU does not require entities to provide sensitivity disclosures. The FASB will consider whether to require sensitivity disclosures jointly with the International Accounting Standards Board as part of a new convergence project on fair value measurement and disclosures. Adoption of ASU 2010-06 had no impact on the Company's results of operations, cash flows or financial position.



## Note 2 – Rate Matters

In March 2010, Middlesex's application with the New Jersey Board of Public Utilities (NJBP) seeking permission to increase its base water rates was partially approved, granting an increase in annual operating revenues of 13.57%, or \$7.8 million. The base water rate increase request was made to seek recovery of increased costs of operations, chemicals and fuel, electricity, taxes, labor and benefits, decreases in industrial and commercial customer demand patterns, as well as capital investment. The new base water rates are designed to recover these increased costs, as well as a return on invested capital in rate base of \$180.3 million based on a return on equity of 10.30%.

Effective January 1, 2010, Tidewater's Distribution System Improvement Charge (DSIC) was established at 1.11%. As of July 1, 2010, Tidewater's DSIC was reduced to 1.07%. DSIC is a Delaware Public Service Commission (DEPSC) approved rate-mechanism that allows water utilities to recover investment in non-revenue producing capital improvements to the water system between base rate proceedings.

## Note 3 – Capitalization

### Common Stock

In June 2010, the Company sold and issued 1,915,000 shares of common stock in a public offering that was priced at \$15.21 per share. The net proceeds of approximately \$27.8 million were used to repay certain of the Company's short-term debt outstanding.

During the six months ended June 30, 2010, there were 72,281 common shares (approximately \$1.2 million) issued under the Company's Amended and Restated Dividend Reinvestment and Common Stock Purchase Plan (DRP).

### Long-term Debt

In February 2010, Tidewater closed on a \$1.1 million loan with the Delaware State Revolving Fund (SRF). This loan allows, but does not obligate, Tidewater to draw down against a General Obligation Note for a specific project no later than July 31, 2011. The interest rate on any draw-down will be set at 3.45% with a final maturity of August 1, 2031 on the amount actually borrowed.

In March 2009, Tidewater closed on a \$22.0 million DEPSC approved loan. In 2009, Tidewater borrowed \$12.0 million under this loan. In March 2010, Tidewater borrowed the remaining \$10.0 million at a rate of 5.69% with a final maturity in January 2030.

### Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments for which it is practicable to estimate that value. The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, trade receivables, accounts payable and notes payable approximate their respective fair values due to the short-term maturities of these instruments. The fair value of the Company's long-term debt relating to First Mortgage and SRF Bonds is based on quoted market prices for similar issues. The carrying amount and fair value of the Company's bonds were as follows:

|                      | (Thousands of Dollars) |               |                    |               |
|----------------------|------------------------|---------------|--------------------|---------------|
|                      | June 30, 2010          |               | December 31, 2009  |               |
|                      | Carrying<br>Amount     | Fair<br>Value | Carrying<br>Amount | Fair<br>Value |
| First Mortgage Bonds | \$86,707               | \$85,105      | \$87,230           | \$84,429      |
| SRF Bonds            | \$991                  | \$1,015       | \$1,061            | \$1,091       |

For other long-term debt for which there was no quoted market price, it was not practicable to estimate their fair value. The carrying amount of these instruments was \$49.4 million at June 30, 2010 and \$40.3 million at December 31, 2009. Customer advances for construction have a carrying amount of \$21.0 million at June 30, 2010 and \$20.8 million at December 31, 2009. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

#### Note 4 – Earnings Per Share

Basic earnings per share (EPS) are computed on the basis of the weighted average number of shares outstanding during the period presented. Diluted EPS assumes the conversion of both the Convertible Preferred Stock \$7.00 Series and the Convertible Preferred Stock \$8.00 Series.

|  | (In Thousands Except per Share Amounts) |        |         |        |
|--|---|--------|---------|--------|
|  | 2010                                    |        | 2009    |        |
|  | Amount                                  | Shares | Amount  | Shares |
| Basic:                                       |   |        |         |        |
| Net Income                                   | \$4,424                                 | 13,972 | \$2,846 | 13,434 |
| Preferred Dividend                           | (52 )                                   |        | (52 )   |        |
| Earnings Applicable to Common Stock          | \$4,372                                 | 13,972 | \$2,794 | 13,434 |
| Basic EPS                                    | \$0.31                                  |        | \$0.21  |        |
| Diluted:                                     |   |        |         |        |
| Earnings Applicable to Common Stock          | \$4,372                                 | 13,972 | \$2,794 | 13,434 |
| \$7.00 Series Preferred Dividend             | 24                                      | 167    | 24      | 167    |
| \$8.00 Series Preferred Dividend             | 14                                      | 96     | 14      | 96     |
| Adjusted Earnings Applicable to Common Stock | \$4,410                                 | 14,235 | \$2,832 | 13,697 |
| Diluted EPS                                  | \$0.31                                  |        | \$0.21  |        |

(In Thousands Except per Share Amounts)  
Six Months Ended June 30,

| Basic:                                       | 2010     | Shares | 2009     | Shares |
|--|----------|--------|----------|--------|
| Net Income                                   | \$ 5,984 | 13,756 | \$ 4,207 | 13,424 |
| Preferred Dividend                           | (104 )   |        | (104 )   |        |
| Earnings Applicable to Common Stock          | \$ 5,880 | 13,756 | \$ 4,103 | 13,424 |
| Basic EPS                                    | \$ 0.43  |        | \$ 0.31  |        |
| <b>Diluted:</b>                              |          |        |          |        |
| Earnings Applicable to Common Stock          | \$ 5,880 | 13,756 | \$ 4,103 | 13,424 |
| \$7.00 Series Preferred Dividend             | 49       | 167    | 49       | 167    |
| \$8.00 Series Preferred Dividend             | 28       | 96     | 28       | 96     |
| Adjusted Earnings Applicable to Common Stock | \$ 5,957 | 14,019 | \$ 4,180 | 13,687 |
| Diluted EPS                                  | \$ 0.42  |        | \$ 0.31  |        |

## Note 5 – Business Segment Data

The Company has identified two reportable segments. One is the regulated business of collecting, treating and distributing water on a retail and wholesale basis to residential, commercial, industrial and fire protection customers in parts of New Jersey, Delaware and Pennsylvania. This segment also includes regulated wastewater systems in New Jersey and Delaware. The Company is subject to regulations as to its rates, services and other matters by New Jersey, Delaware and Pennsylvania with respect to utility services within these states. The other segment is primarily comprised of non-regulated contract services for the operation and maintenance of municipal and private water and wastewater systems in New Jersey and Delaware. Inter-segment transactions relating to operational costs are treated as pass-through expenses. Finance charges on inter-segment loan activities are based on interest rates that are below what would normally be charged by a third party lender.

(In Thousands)

| Operations by Segments:       | Three Months Ended |          | Six Months Ended |          |
|-------------------------------|--------------------|----------|------------------|----------|
|                               | June 30,           |          | June 30,         |          |
|                               | 2010               | 2009     | 2010             | 2009     |
| <b>Revenues:</b>              |                    |          |                  |          |
| Regulated                     | \$23,920           | \$20,489 | \$43,022         | \$38,465 |
| Non – Regulated               | 2,729              | 2,724    | 5,355            | 5,390    |
| Inter-segment Elimination     | (111 )             | (130 )   | (193 )           | (190 )   |
| Consolidated Revenues         | \$26,538           | \$23,083 | \$48,184         | \$43,665 |
| <b>Operating Income:</b>      |                    |          |                  |          |
| Regulated                     | \$7,390            | \$5,042  | \$10,222         | \$7,641  |
| Non – Regulated               | 504                | 505      | 962              | 908      |
| Consolidated Operating Income | \$7,894            | \$5,547  | \$11,184         | \$8,549  |
| <b>Net Income:</b>            |                    |          |                  |          |
| Regulated                     | \$4,101            | \$2,514  | \$5,367          | \$3,600  |
| Non – Regulated               | 323                | 332      | 617              | 607      |
| Consolidated Net Income       | \$4,424            | \$2,846  | \$5,984          | \$4,207  |





|                                   | (In Thousands)     |                   |                  |                 |
|-----------------------------------|--------------------|-------------------|------------------|-----------------|
|                                   | Three Months Ended |                   | Six Months Ended |                 |
|                                   | June 30,           |                   | June 30,         |                 |
|                                   | 2010               | 2009              | 2010             | 2009            |
| <b>Capital Expenditures:</b>      |                    |                   |                  |                 |
| Regulated                         | \$10,500           | \$ 5,910          | \$15,910         | \$11,934        |
| Non – Regulated                   | 32                 | 57                | 71               | 9               |
| <b>Total Capital Expenditures</b> | <b>\$10,532</b>    | <b>\$ 5,967</b>   | <b>\$15,981</b>  | <b>\$11,943</b> |
|                                   |                    |                   |                  |                 |
| <b>Assets:</b>                    |                    |                   |                  |                 |
|                                   | As of              | As of             |                  |                 |
|                                   | June 30,           | December 31,      |                  |                 |
|                                   | 2010               | 2009              |                  |                 |
| Regulated                         | \$467,529          | \$ 451,734        |                  |                 |
| Non – Regulated                   | 11,070             | 11,022            |                  |                 |
| Inter-segment Elimination         | (5,288 )           | (4,670 )          |                  |                 |
| <b>Consolidated Assets</b>        | <b>\$473,311</b>   | <b>\$ 458,086</b> |                  |                 |

#### Note 6 – Short-term Borrowings

As of June 30, 2010, the Company has established lines of credit aggregating \$58.0 million. At June 30, 2010, the outstanding borrowings under these credit lines were \$13.5 million at a weighted average interest rate of 1.45%.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were as follows:

|  | (\$ In Thousands)  |                 |                  |                 |
|--|--------------------|-----------------|------------------|-----------------|
|  | Three Months Ended |                 | Six Months Ended |                 |
|  | June 30,           |                 | June 30,         |                 |
|  | 2010               | 2009            | 2010             | 2009            |
| <b>Average Daily Amounts Outstanding</b> | <b>\$31,555</b>    | <b>\$39,203</b> | <b>\$36,614</b>  | <b>\$37,707</b> |
| <b>Weighted Average Interest Rates</b>   | <b>1.69 %</b>      | <b>1.67 %</b>   | <b>1.61 %</b>    | <b>1.85 %</b>   |

The maturity dates for the \$13.5 million outstanding as of June 30, 2010 are as follows: \$2.0 million in July 2010 and \$11.5 million in August 2010.

Interest rates for short-term borrowings under the lines of credit are below the prime rate with no requirement for compensating balances.

#### Note 7 – Commitments and Contingent Liabilities

##### Guarantees

USA-PA operates the City of Perth Amboy's (Perth Amboy) water and wastewater systems under a service contract agreement (the Agreement) through June 30, 2018. Under the Agreement, USA-PA receives a fixed fee and a variable fee based on increased system billing. Scheduled fixed fee payments for 2010 are \$8.4 million. The fixed fees will increase over the term of the contract to \$10.2 million.



In connection with the Agreement, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately \$68.0 million in three series of bonds. In 1998, as part of Agreement negotiations, Middlesex agreed to guarantee debt service payments on one of those series of bonds, designated the Series C Serial Bonds, in the principal amount of approximately \$26.3 million. Perth Amboy guaranteed the two other series of bonds. The Series C Serial Bonds have various maturity dates with the final maturity date on September 1, 2015. As of June 30, 2010, approximately \$19.7 million of the Series C Serial Bonds remained outstanding. To date, Middlesex has not had to fund any debt service obligations as guarantor.

We are obligated to perform under the guarantee in the event notice is received from the Series C Serial Bonds trustee of an impending debt service deficiency. Our obligation in that case would be to pay scheduled debt service payments as they come due. If Middlesex funds any debt service obligations as guarantor, there is a provision in the agreement that requires Perth Amboy to reimburse us. There are other provisions in the agreement that we believe make it unlikely that we will be required to perform under the guarantee, such as scheduled annual rate increases for water and wastewater services as well as rate increases due to unforeseen circumstances. In the event revenues from customers could not satisfy the reimbursement requirements, Perth Amboy has Ad Valorem taxing powers, which could be used to raise the needed amount.

#### Water Supply

Middlesex has an agreement with the New Jersey Water Supply Authority (NJWSA) for the purchase of untreated water through November 30, 2023, which provides for an average purchase of 27 million gallons a day (mgd). Pricing is set annually by the NJWSA through a public rate making process. The agreement has provisions for additional pricing in the event Middlesex overdrafts or exceeds certain monthly and annual thresholds.

Middlesex also has an agreement with a non-affiliated regulated water utility for the purchase of treated water. This agreement, which expires February 27, 2011, provides for the minimum purchase of 3 mgd of treated water with provisions for additional purchases.

Purchased water costs are shown below:

|             | (In Thousands)                 |         |                              |         |
|-------------|--------------------------------|---------|------------------------------|---------|
|             | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |
|             | 2010                           | 2009    | 2010                         | 2009    |
| Treated     | \$712                          | \$566   | \$1,431                      | \$1,107 |
| Untreated   | 522                            | 513     | 1,135                        | 1,111   |
| Total Costs | \$1,234                        | \$1,079 | \$2,566                      | \$2,218 |

#### Construction

The Company expects to spend approximately \$33.2 million on its construction program in 2010. The actual amount and timing of capital expenditures is dependent on customer growth, residential new home construction and sales and project scheduling. There is no assurance that projected customer growth and residential new home construction and sales will occur.

#### Litigation

The Company is a defendant in lawsuits in the normal course of business. We believe the resolution of pending claims and legal proceedings will not have a material adverse effect on the Company's consolidated financial statements.

#### Change in Control Agreements

The Company has Change in Control Agreements with certain of its officers that provide compensation and benefits in the event of termination of employment in connection with a change in control of the Company.

#### Note 8 – Employee Benefit Plans

##### Pension Benefits

The Company's noncontributory defined benefit pension plan (the Pension Plan) covers substantially all employees with more than 1,000 hours of service and who were hired prior to March 31, 2007. Employees hired after March 31, 2007 are not eligible to participate in this plan, but do participate in a defined contribution plan that provides an annual contribution at the discretion of the Company, based upon a percentage of the participants' compensation. For the three months ended June 30, 2010 and 2009, the Company made Pension Plan cash contributions of \$0.3 million and \$0.6 million, respectively. For the six months ended June 30, 2010 and 2009, the Company made Pension Plan cash contributions of \$0.6 million and \$1.1 million, respectively. The Company expects to make additional Pension Plan cash contributions of approximately \$2.4 million over the remainder of the current year. The Company also maintains an unfunded supplemental retirement benefit plan for certain active and retired Company Officers and currently pays \$0.3 million in annual benefits to the retired participants.

##### Postretirement Benefits Other Than Pensions

The Company's postretirement plan other than pensions (the Other Benefits Plan) covers substantially all of its retired employees. Employees hired after March 31, 2007 are not eligible to participate in this plan. Coverage includes healthcare and life insurance. For the three months ended June 30, 2010 and 2009, the Company made Other Benefits Plan cash contributions of \$0.4 million and \$0.2 million, respectively. For the six months ended June 30, 2010 and 2009, the Company made Other Benefits Plan cash contributions of \$0.9 million and \$0.5 million, respectively. The Company expects to make additional Other Benefits Plan cash contributions of approximately \$1.1 million to the plan over the remainder of the current year.

The following table sets forth information relating to the Company's periodic costs for its employee retirement benefit plans:

|   | (In Thousands)              |        |                     |        |
|---|-----------------------------|--------|---------------------|--------|
|   | Pension Plan                |        | Other Benefits Plan |        |
|   | Three Months Ended June 30, |        |                     |        |
|   | 2010                        | 2009   | 2010                | 2009   |
| Service Cost                                    | \$349                       | \$343  | \$256               | \$223  |
| Interest Cost                                   | 557                         | 525    | 334                 | 272    |
| Expected Return on Assets                       | (505 )                      | (401 ) | (190 )              | (149 ) |
| Amortization of Unrecognized Losses             | 127                         | 154    | 133                 | 123    |
| Amortization of Unrecognized Prior Service Cost | 2                           | 2      | -                   | -      |
| Amortization of Transition Obligation           | -                           | -      | 34                  | 34     |
| Net Periodic Benefit Cost                       | \$530                       | \$623  | \$567               | \$503  |

  

|   | Six Months Ended June 30, |         |         |         |
|---|---------------------------|---------|---------|---------|
|   | 2010                      |         | 2009    |         |
|   | 2010                      | 2009    | 2010    | 2009    |
| Service Cost                                    | \$698                     | \$686   | \$512   | \$445   |
| Interest Cost                                   | 1,114                     | 1,050   | 669     | 543     |
| Expected Return on Assets                       | (1,010 )                  | (801 )  | (379 )  | (298 )  |
| Amortization of Unrecognized Losses             | 253                       | 308     | 266     | 247     |
| Amortization of Unrecognized Prior Service Cost | 5                         | 5       | -       | -       |
| Amortization of Transition Obligation           | -                         | -       | 68      | 68      |
| Net Periodic Benefit Cost                       | \$1,060                   | \$1,248 | \$1,136 | \$1,005 |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of the Company included elsewhere herein and with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Forward-Looking Statements

Certain statements contained in this periodic report and in the documents incorporated by reference constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. The Company intends that these statements be covered by the safe harbors created under those laws. These statements include, but are not limited to:

- statements as to expected financial condition, performance, prospects and earnings of the Company;
- statements regarding strategic plans for growth;
- statements regarding the amount and timing of rate increases and other regulatory matters, including the recovery of certain costs recorded as regulatory assets;
- statements as to the Company's expected liquidity needs during the upcoming fiscal year and beyond and statements as to the sources and availability of funds to meet its liquidity needs;
- statements as to expected rates, consumption volumes, service fees, revenues, margins, expenses and operating results;
- statements as to the Company's compliance with environmental laws and regulations and estimations of the materiality of any related costs;
- statements as to the safety and reliability of the Company's equipment, facilities and operations;
- statements as to financial projections;
- statements as to the ability of the Company to pay dividends;
- statements as to the Company's plans to renew municipal franchises and consents in the territories it serves;
- expectations as to the amount of cash contributions to fund the Company's retirement benefit plans, including statements as to anticipated discount rates and rates of return on plan assets;
- statements as to trends; and
- statements regarding the availability and quality of our water supply.

These forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by the forward-looking statements. Important factors that could cause actual results to differ materially from anticipated results and outcomes include, but are not limited to:

- the effects of general economic conditions;
- increases in competition in the markets served by the Company;
- the ability of the Company to control operating expenses and to achieve efficiencies in its operations;
- the availability of adequate supplies of water;
- actions taken by government regulators, including decisions on rate increase requests;
- new or additional water quality standards;
- weather variations and other natural phenomena;
- the existence of financially attractive acquisition candidates and the risks involved in pursuing those acquisitions;
- acts of war or terrorism;
- significant changes in the housing starts in Delaware;
- the availability and cost of capital resources;
- the ability to translate Preliminary Survey & Investigation charges into viable projects; and
- other factors discussed elsewhere in this quarterly report.





Many of these factors are beyond the Company's ability to control or predict. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which only speak to the Company's understanding as of the date of this report. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

For an additional discussion of factors that may affect the Company's business and results of operations, see Item 1A. - Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

#### Overview

Middlesex has operated as a water utility in New Jersey since 1897, in Delaware, through our wholly-owned subsidiary, Tidewater, since 1992 and in Pennsylvania, through our wholly-owned subsidiary, Twin Lakes, since 2009. We are in the business of collecting, treating, distributing and selling water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate a New Jersey municipal water and wastewater system under contract and provide wastewater services in New Jersey and Delaware through our subsidiaries. We are regulated as to the rates charged to customers for water and wastewater services, as to the quality of water service we provide and as to certain other matters. We are regulated in New Jersey by the New NJBPU, in Delaware by the DEPSC, and in Pennsylvania by the Pennsylvania Public Utilities Commission. Only our USA, USA-PA and White Marsh subsidiaries are not regulated utilities.

Our Middlesex System provides water services to approximately 59,800 retail customers, primarily in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey with a total population of approximately 303,000. Through our subsidiary, USA-PA, we operate the water supply system and wastewater system for the City of Perth Amboy, New Jersey. Our other New Jersey subsidiaries, Pinelands Water and Pinelands Wastewater, provide water and wastewater services to residents in Southampton Township, New Jersey. Our USA subsidiary offers residential customers in New Jersey and Delaware a service line maintenance program called LineCareSM.

Our Delaware subsidiaries, Tidewater and Southern Shores, provide water services to approximately 33,200 retail customers in New Castle, Kent and Sussex Counties, Delaware. Our TESI subsidiary provides regulated wastewater service to approximately 1,900 residential retail customers in Delaware. Our White Marsh subsidiary serves an additional 7,200 customers under unregulated operating contracts with various owners of small water and wastewater systems in Kent and Sussex Counties.

Our Twin Lakes subsidiary provides water system services to 120 retail customers in Shohola, Pennsylvania.

The majority of our revenue is generated from retail and contract water services to customers in our service areas. We record water service revenue as such service is rendered and include estimates for amounts unbilled at the end of the period for services provided after the last billing cycle. Fixed service charges are billed in advance by our subsidiary, Tidewater, and are recognized in revenue as the service is provided.

Our ability to increase operating income and net income is based significantly on four factors: weather, adequate and timely rate relief, effective cost management, and customer growth. These factors are evident in the discussions below which compare our results of operations with prior periods.



## Recent Developments

In June 2010, the Company sold and issued 1,915,000 shares of its common stock in a public offering priced at \$15.21 per share. The net proceeds of approximately \$27.8 million were used to repay certain of the Company's short-term debt outstanding.

In March 2010, Middlesex's application with the NJBPU seeking permission to increase its base water rates was partially approved, granting an increase in annual operating revenues of 13.57%, or \$7.8 million. The base water rate increase request was made to seek recovery of increased costs of operations, chemicals and fuel, electricity, taxes, labor and benefits, decreases in industrial and commercial customer demand patterns, as well as capital investment. The new base water rates are designed to recover these increased costs, as well as a return on invested capital in rate base of \$180.3 million, based on a return on common equity of 10.30%.

Effective July 1, 2010, Tidewater's DSIC was reduced to 1.07% from 1.11%. DSIC is a DEPSC approved rate-mechanism that allows water utilities to recover investment in non-revenue producing capital improvements to the water system between base rate proceedings.

## Outlook

Our revenues are expected to increase in 2010 as compared to 2009 from the full year's effect of base water rate increases granted to Tidewater during 2009, the current year implementation of a DSIC in our Tidewater system and the March 2010 base water rate increase granted to Middlesex.

In addition to changes in rates we charge our customers, revenues and, ultimately, earnings may also be influenced by weather. These changes, as well as increases in capital expenditures and operating costs, are the primary factors in determining the need for future rate increase requests. We continue to implement plans to streamline operations and reduce operating costs.

Ongoing economic conditions continue to negatively impact our customers' water consumption, particularly the level of water usage by our commercial and industrial customers in our Middlesex system. We are unable to determine when these customers' aggregate water demands may return to previous levels, or if a reduced level of demand will continue indefinitely. The decrease in demand by our commercial and industrial customers in our Middlesex system was one of the factors that precipitated our Middlesex rate request. Middlesex was given recognition in that proceeding for the decrease in demand.

As a result of ongoing challenging economic conditions impacting the pace of new residential home construction, there may be an increase in the amount of Preliminary Survey & Investigation costs that will not be currently recoverable in rates. In addition, the impact of the depressed national and local economies on the residential housing market had resulted in the suspension of construction activities on the North Carolina water and wastewater facility we had intended to own and operate. We are not obligated to assume ownership of the facilities until completion of construction by the present owner and until homes are occupied and customers are connected. We entered into this agreement in 2008 and have invested approximately \$0.7 million. Given the continued effect of the economy on the pace of new housing construction, we did not expect construction on this project to resume in a timeframe acceptable to us. We therefore elected to exercise our rights under the agreement to seek recovery of our investment.

As a result of the sale of common stock in June 2010, the Company expects its average level of short term borrowing to be lower in 2010 as compared to 2009.



The return on assets held in our retirement benefit plans during 2009 resulted in an increase in the amount available to fund current and future obligations and has helped stabilize retirement plan benefit expenses and retirement plan cash contributions in 2010.

Our strategy includes continued revenue growth through acquisitions, internal expansion, contract operations and when necessary, rate relief. We will continue to pursue opportunities in both the regulated and non-regulated sectors that we believe complement existing capabilities and ultimately increase shareholder value.

### Operating Results by Segment

The discussion of the Company's operating results is on a consolidated basis and includes significant factors by subsidiary. The Company has two operating segments, Regulated and Non-Regulated.

The segments in the tables included below consist of the following companies: Regulated-Middlesex, Tidewater, Pinelands, Southern Shores, TESI and Twin Lakes; Non-Regulated- USA, USA-PA, and White Marsh.

### Results of Operations – Three Months Ended June 30, 2010

|                                     | (In Thousands)              |               |          |           |               |          |
|-------------------------------------|-----------------------------|---------------|----------|-----------|---------------|----------|
|                                     | Three Months Ended June 30, |               |          |           |               |          |
|                                     | 2010                        |               |          | 2009      |               |          |
|                                     | Regulated                   | Non-Regulated | Total    | Regulated | Non-Regulated | Total    |
| Revenues                            | \$23,809                    | \$ 2,729      | \$26,538 | \$20,489  | \$ 2,594      | \$23,083 |
| Operations and maintenance expenses | 11,452                      | 2,124         | 13,576   | 10,898    | 1,995         | 12,893   |
| Depreciation expense                | 2,199                       | 37            | 2,236    | 2,076     | 35            | 2,111    |
| Other taxes                         | 2,768                       | 64            | 2,832    | 2,473     | 59            | 2,532    |
| Operating income                    | 7,390                       | 504           | 7,894    | 5,042     | 505           | 5,547    |
| Other income, net                   | 430                         | 74            | 504      | 293       | 91            | 384      |
| Interest expense                    | 1,844                       | 38            | 1,882    | 1,713     | 53            | 1,766    |
| Income taxes                        | 1,875                       | 217           | 2,092    | 1,108     | 211           | 1,319    |
| Net income                          | \$4,101                     | \$ 323        | \$4,424  | \$2,514   | \$ 332        | \$2,846  |

### Operating Revenues

Operating revenues for the three months ended June 30, 2010 increased \$3.5 million from the same period in 2009. This increase was primarily related to the following factors:

- Revenues in our Middlesex System increased \$2.3 million, primarily as a result of the following:
  - § Contract Sales to Municipalities increased by \$0.9 million from higher demand and the March 2010 base rate increase;
  - § Sales to General Metered Service (GMS) customers, which includes residential, commercial and industrial classes of customers increased by \$0.7 million, primarily from the effects of the March 2010 base water rate increase (\$1.0 million) offset by decreased consumption (\$0.3 million). Water consumption by our industrial customer class was below the historical average. We are unable to determine when these customers' water demands may return to previous levels, or if the decline in demand will continue indefinitely; and



- § Facilities Charges increased by \$0.7 million, primarily from the March 2010 rate increase.
- Revenues from our Tidewater system increased \$1.1 million, primarily as a result of the following:
  - § Higher demand by our GMS customers (\$0.9 million);
  - § A contract to temporarily provide water to the Dover Air Force Base (\$0.2 million);
  - § New customer growth and connection fees added \$0.1 million of revenue; and
  - § All other revenue categories decreased \$0.1 million.
- Additional services provided by White Marsh under our non-regulated contracts increased revenues by \$0.1 million.

#### Operation and Maintenance Expense

Operation and maintenance expenses for the three months ended June 30, 2010 increased \$0.7 million from the same period in 2009. This increase was primarily related to the following factors:

- Increased materials and supply and outside contractor costs of \$0.1 million due to residual costs related to the higher incidence of winter weather-related water main breaks in our Middlesex system;
- Increased purchased water costs of \$0.2 million in our Middlesex system, primarily from the aforementioned increased customer demands;
- Increased licensing and service costs of \$0.2 million from the implementation of a Company-wide enterprise resource planning system in 2010; and
  - All other operating and maintenance expense categories increased \$0.2 million.

#### Depreciation

Depreciation expense for the three months ended June 30, 2010 increased \$0.1 million from the same period in 2009 due to a higher level of utility plant in service.

#### Other Taxes

Other taxes for the three months ended June 30, 2010 increased \$0.3 million from the same period in 2009, primarily due to increased gross receipts and franchise taxes on higher taxable gross revenues in our Middlesex system.

#### Other Income, net

Other Income, net for the three months ended June 30, 2010 increased \$0.1 million from the same period in 2009, due mostly to an increase in Allowance for Funds Used During Construction (AFUDC) on longer term projects that were actively under construction during the current year period.

#### Interest Charges

Interest charges for the three months ended June 30, 2010 increased \$0.1 million from the same period in 2009, primarily due to increased average levels of debt outstanding in the second quarter of 2010 as compared to the second quarter of 2009.

## Income Taxes

Income taxes for the three months ended June 30, 2010 increased \$0.8 million from the same period in 2009, as a result of higher taxable income for the three months ended June 30, 2010 as compared to the same period in 2009.

## Net Income and Earnings Per Share

Favorable results for the three months ended June 30, 2010 increased net income by \$1.6 million when compared to the same period in 2009. Basic and diluted earnings per share increased to \$0.31 for the three months ended June 30, 2010 as compared to \$0.21 for the three months ended June 30, 2009. The increase in earnings per share for the three months ended June 30, 2010 as compared to the same period in 2009 was tempered by an increase in the average number of common shares outstanding after the Company's sale of 1.9 million shares of common stock in June 2010.

## Results of Operations – Six Months Ended June 30, 2010

|                                     | (In Thousands)            |               |          |           |               |          |
|-------------------------------------|---------------------------|---------------|----------|-----------|---------------|----------|
|                                     | 2010                      |               |          | 2009      |               |          |
|                                     | Six Months Ended June 30, |               |          |           |               |          |
|                                     | Regulated                 | Non-Regulated | Total    | Regulated | Non-Regulated | Total    |
| Revenues                            | \$42,829                  | \$ 5,355      | \$48,184 | \$38,465  | \$ 5,200      | \$43,665 |
| Operations and maintenance expenses | 22,991                    | 4,179         | 27,170   | 21,835    | 4,101         | 25,936   |
| Depreciation expense                | 4,361                     | 78            | 4,439    | 4,125     | 71            | 4,196    |
| Other taxes                         | 5,254                     | 137           | 5,391    | 4,864     | 120           | 4,984    |
| Operating income                    | 10,223                    | 961           | 11,184   | 7,641     | 908           | 8,549    |
| Other income, net                   | 800                       | 149           | 949      | 604       | 188           | 792      |
| Interest expense                    | 3,227                     | 79            | 3,306    | 3,049     | 109           | 3,158    |
| Income taxes                        | 2,429                     | 414           | 2,843    | 1,596     | 380           | 1,976    |
| Net income                          | \$5,367                   | \$ 617        | \$5,984  | \$3,600   | \$ 607        | \$4,207  |

## Operating Revenues

Operating revenues for the six months ended June 30, 2010 increased \$4.5 million from the same period in 2009. This increase was primarily related to the following factors:

- Revenues in our Middlesex System increased \$2.7 million, primarily as a result of the following:
  - § Contract Sales to Municipalities increased by \$1.2 million due to higher demand and the March 2010 rate increase;
  - § Sales to GMS Customers increased by \$0.3 million from the implementation of the March 2010 base water rate increase (\$1.0 million), offset by decreased consumption (\$0.7 million). Water consumption in our commercial and industrial customer classes were below the historical average. We are unable to determine when these customers' water demands may return to previous levels, or if the decline in demand will continue indefinitely;
  - § Facilities Charges increased by \$1.1 million from the March 2010 rate increase;





- § Revenues of \$0.2 million were recorded from a NJBPU approved purchased water adjustment clause (PWAC). The PWAC was in effect from July 2009 through March 2010; and
  - § All other revenue categories decreased \$0.1 million.
- Revenues in our Tidewater system increased \$1.7 million primarily from the following:
  - § Higher demand by our GMS customers (\$1.0 million);
    - § Increased base water rates that went into effect during 2009 (\$0.4 million);
    - § A contract to temporarily provide water to the Dover Air Force Base (\$0.2 million); and
    - § New customer growth and connection fees added \$0.1 million of revenue.
- Additional services provided by White Marsh under our non-regulated contracts increased revenues by \$0.1 million.

#### Operation and Maintenance Expense

Operation and maintenance expenses for the six months ended June 30, 2010 increased \$1.2 million from the same period in 2009. This increase was primarily related to the following factors:

- Increased materials and supply and outside contractor costs of \$0.4 million due to costs related to the higher incidence of winter weather-related water main breaks in our Middlesex system;
- Increased purchased water costs of \$0.4 million in our Middlesex system, primarily from the aforementioned increased customer demand;
- Increased licensing and service costs of \$0.2 million from the implementation of a Company-wide enterprise resource planning system in 2010; and
  - All other operating and maintenance expense categories increased \$0.2 million.

#### Depreciation

Depreciation expense for the six months ended June 30, 2010 increased \$0.2 million from the same period in 2009 due to a higher level of utility plant in service.

#### Other Taxes

Other taxes for the six months ended June 30, 2010 increased \$0.4 million from the same period in 2009, primarily due to increased gross receipts and franchise taxes on higher taxable gross revenues in our Middlesex system.

#### Interest Charges

Interest charges for the six months ended June 30, 2010 increased \$0.1 million from the same period in 2009, primarily due to increased average levels of debt outstanding in 2010 as compared to 2009.

#### Other Income, net

Other Income, net for the six months ended June 30, 2010 increased \$0.2 million from the same period in 2009, due mostly to an increase in AFUDC on longer term projects that were actively under construction during the current year.

## Income Taxes

Income taxes for the six months ended June 30, 2010 increased \$0.9 million from the same period in 2009, as a result of higher taxable income in 2010 as compared to 2009.

## Net Income and Earnings Per Share

Favorable results for the six months ended June 30, 2010 increased net income by \$1.8 million from the same period in 2009. Basic earnings per share increased to \$0.43 for the six months ended June 30, 2010 as compared to \$0.31 for the six months ended June 30, 2009. Diluted earnings per share increased to \$0.42 for the six months ended June 30, 2010 as compared to \$0.31 for the six months ended June 30, 2009. The increase in earnings per share for the six months ended June 30, 2010 as compared to the same period in 2009 was tempered by an increase in the average number of common shares outstanding after the Company's sale of 1.9 million shares of common stock in June 2010.

## Liquidity and Capital Resources

### Operating Cash Flows

Cash flows from operations are largely based on four factors: weather, adequate and timely rate increases, effective cost management and customer growth. The effect of those factors on net income is discussed in results of operations.

For the six months ended June 30, 2010, cash flows from operating activities increased \$4.4 million to \$11.8 million. Increased earnings and the timing of certain tax and operating payments were the primary reasons for the increase in cash flow. The \$11.8 million of net cash flow from operations enabled us to fund approximately 74% of our utility plant expenditures internally for the period.

### Capital Expenditures and Commitments

To fund our capital program, we use internally generated funds, short-term and long-term debt borrowings and, when market conditions are favorable, proceeds from sales of common stock under our DRP and common stock offerings. See below for a more detailed discussion regarding the funding of our capital program.

The capital spending program for 2010 is currently estimated to be \$33.2 million. Through June 30, 2010, we have expended \$15.9 million and expect to incur approximately \$17.3 million for capital projects for the remainder of 2010.

We currently project that we may be required to expend approximately \$55.0 million for capital projects in 2011 and 2012. The exact amount is dependent on customer growth, residential housing sales, project scheduling and refinement of engineering estimates for certain capital projects.

To fund our capital program for the remainder of 2010, we plan on utilizing:

- Internally generated funds
- Proceeds from the sale of common stock through the DRP
- Funds available and held in trust under existing New Jersey SRF loans (currently, \$3.5 million) and Delaware SRF loans (currently, \$2.4 million). The SRF programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks.

- Short-term borrowings, if necessary, through \$58.0 million of available lines of credit with several financial institutions. At June 30, 2010, the outstanding borrowings under these credit lines had been reduced to \$13.5 million as a result of using the \$27.8 million of proceeds from the June 2010 common stock offering and sale of 1.9 million shares of our common stock.

Recent Accounting Pronouncements – See Note 1 of the Notes to Unaudited Condensed Consolidated Financial Statements for a discussion of recent accounting pronouncements.

### Item 3. Quantitative and Qualitative Disclosures of Market Risk

The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2018 to 2038. Over the next twelve months, approximately \$1.9 million of the current portion of 29 existing long-term debt instruments will mature. Applying a hypothetical change in the rate of interest charged by 10% on those borrowings, would not have a material effect on our earnings.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities and Exchange Act of 1934 (the Exchange Act), an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted by the Company's Chief Executive Officer along with the Company's Chief Financial Officer. Based upon that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this Report.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding disclosure.

#### Material Change in Internal Controls

In the second quarter of 2010, the Company implemented the fixed asset, inventory, procurement, billing and customer information modules of an enterprise resource planning (ERP) system. As previously disclosed, the Company had implemented the general ledger and human resources modules of the ERP system in the first quarter of 2010.

The implementation of the fixed asset, inventory, procurement, billing and customer information modules and the related workflow changes have resulted in material changes to the Company's internal controls over financial reporting (as that term is defined in Rule 13(a)-15 under the Exchange Act). In connection with the implementation of the fixed asset, inventory, procurement, billing and customer information modules, the Company is continuing to replace and supplement existing internal controls over financial reporting, as appropriate. The decision to implement the ERP system was made to improve the efficiency and effectiveness of our management and financial reporting systems and was not made in response to any actual or perceived deficiencies in the Company's internal control over financial reporting.

We continually review our disclosure controls and procedures and make changes, as necessary, to ensure the quality of our financial reporting. Other than the changes made related to the implementation of the fixed asset, inventory, procurement, billing and customer information modules and the related work flow changes, there have been no changes in internal control over financial reporting that occurred in the second quarter of 2010 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

1A.

The information about risk factors does not differ materially from those set forth in Part I, Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Removed and Reserved

Item 5. Other Information

None.

Item 6. Exhibits

4.10 By-laws of the Company, as amended.

31.1 Section 302 Certification by Dennis W. Doll pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

31.2 Section 302 Certification by A. Bruce O'Connor pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

32.1 Section 906 Certification by Dennis W. Doll pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.2 Section 906 Certification by A. Bruce O'Connor pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.



SIGNATURES

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

MIDDLESEX WATER  
COMPANY

By: /s/A. Bruce O'Connor  
A. Bruce O'Connor  
Vice President and  
Chief Financial  
Officer  
(Principal Accounting  
Officer)

Date: July 30, 2010