

MIDDLESEX WATER CO  
Form 10-Q  
May 06, 2008

---

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 March 31, 2008

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 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 ☒

Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

The number of shares outstanding of each of the registrant's classes of common stock, as of May 2, 2008: Common Stock, No Par Value: 13,266,186 shares outstanding.

---

---

---

## INDEX

PART I. FINANCIAL INFORMATION	PAGE
Item 1. Financial Statements:	
<u>Condensed Consolidated Statements of Income</u>	1
<u>Condensed Consolidated Balance Sheets</u>	2
<u>Condensed Consolidated Statements of Cash Flows</u>	3
<u>Condensed Consolidated Statements of Capital Stock and Long-term Debt</u>	4
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3. <u>Quantitative and Qualitative Disclosures of Market Risk</u>	17
Item 4. <u>Controls and Procedures</u>	17
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	18
Item 1A. <u>Risk Factors</u>	18
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	18
Item 3. <u>Defaults upon Senior Securities</u>	18
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	18
Item 5. <u>Other Information</u>	18
Item 6. <u>Exhibits</u>	19
<u>SIGNATURES</u>	20

---

Index

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

	Three Months Ended March 31,	
	2008	2007
Operating Revenues	\$ 20,855	\$ 18,988
Operating Expenses:		
Operations	11,102	10,192
Maintenance	996	978
Depreciation	1,931	1,845
Other Taxes	2,479	2,251
Total Operating Expenses	16,508	15,266
Operating Income	4,347	3,722
Other Income (Expense):		
Allowance for Funds Used During Construction	103	112
Other Income	241	226
Other Expense	(46)	(5)
Total Other Income, net	298	333
Interest Charges	1,517	1,384
Income before Income Taxes	3,128	2,671
Income Taxes	1,124	902
Net Income	2,004	1,769
Preferred Stock Dividend Requirements	62	62
Earnings Applicable to Common Stock	\$ 1,942	\$ 1,707
Earnings per share of Common Stock:		
Basic	\$ 0.15	\$ 0.13
Diluted	\$ 0.15	\$ 0.13
Average Number of Common Shares Outstanding:		
Basic	13,254	13,176
Diluted	13,585	13,507
Cash Dividends Paid per Common Share	\$ 0.1750	\$ 0.1725

See Notes to Condensed Consolidated Financial Statements

1

---

Index

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

		March 31, 2008	December 31, 2007
<b>ASSETS</b>			
<b>UTILITY PLANT:</b>	Water Production	\$ 99,220	\$ 98,942
	Transmission and Distribution	267,052	264,939
	General	26,022	24,874
	Construction Work in Progress	13,080	9,833
	<b>TOTAL</b>	<b>405,374</b>	<b>398,588</b>
	Less Accumulated Depreciation	66,363	64,736
	<b>UTILITY PLANT - NET</b>	<b>339,011</b>	<b>333,852</b>
<b>CURRENT ASSETS:</b>			
	Cash and Cash Equivalents	1,462	2,029
	Accounts Receivable, net	8,099	8,227
	Unbilled Revenues	4,364	4,609
	Materials and Supplies (at average cost)	1,273	1,205
	Prepayments	995	1,363
	<b>TOTAL CURRENT ASSETS</b>	<b>16,193</b>	<b>17,433</b>
<b>DEFERRED CHARGES</b>	Unamortized Debt Expense	2,862	2,884
	Preliminary Survey and Investigation		
<b>AND OTHER ASSETS:</b>	Charges	5,964	5,283
	Regulatory Assets	15,868	16,090
	Operations Contracts Fees Receivable	4,216	4,184
	Restricted Cash	6,199	6,418
	Non-utility Assets - Net	6,149	6,183
	Other	347	348
	<b>TOTAL DEFERRED CHARGES AND OTHER ASSETS</b>	<b>41,605</b>	<b>41,390</b>
	<b>TOTAL ASSETS</b>	<b>\$ 396,809</b>	<b>\$ 392,675</b>
<b>CAPITALIZATION AND LIABILITIES</b>			
<b>CAPITALIZATION:</b>	Common Stock, No Par Value	\$ 106,025	\$ 105,668
	Retained Earnings	27,064	27,441
	Accumulated Other Comprehensive Income, net of tax	57	69
	<b>TOTAL COMMON EQUITY</b>	<b>133,146</b>	<b>133,178</b>
	Preferred Stock	3,958	3,958
	Long-term Debt	131,423	131,615
	<b>TOTAL CAPITALIZATION</b>	<b>268,527</b>	<b>268,751</b>
<b>CURRENT LIABILITIES:</b>	Current Portion of Long-term Debt	2,768	2,723
	Notes Payable	9,000	6,250
	Accounts Payable	4,535	6,477
	Accrued Taxes	9,697	7,611
	Accrued Interest	975	1,916
		758	758

Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

Unearned Revenues and Advanced Service  
Fees

Other	1,446	1,274
<b>TOTAL CURRENT LIABILITIES</b>	<b>29,179</b>	<b>27,009</b>

COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)

DEFERRED CREDITS	Customer Advances for Construction	21,796	21,758
AND OTHER	Accumulated Deferred Investment Tax		
LIABILITIES:	Credits	1,441	1,461
	Accumulated Deferred Income Taxes	18,096	17,940
	Employee Benefit Plans	13,871	13,333
	Regulatory Liability - Cost of Utility Plant		
	Removal	5,876	5,726
	Other	1,337	459
	<b>TOTAL DEFERRED CREDITS AND</b>		
	<b>OTHER LIABILITIES</b>	<b>62,417</b>	<b>60,677</b>

CONTRIBUTIONS IN AID OF CONSTRUCTION	36,686	36,238
<b>TOTAL CAPITALIZATION AND</b>		
<b>LIABILITIES</b>	<b>\$ 396,809</b>	<b>\$ 392,675</b>

See Notes to Condensed Consolidated Financial Statements.

Index

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

	Three Months Ended March 31,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 2,004	\$ 1,769
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,088	1,995
Provision for Deferred Income Taxes and ITC	123	128
Equity Portion of AFUDC	(54)	(54)
Cash Surrender Value of Life Insurance	172	(56)
Changes in Assets and Liabilities:		
Accounts Receivable	128	(209)
Unbilled Revenues	245	(65)
Materials & Supplies	(68)	(119)
Prepayments	368	319
Other Assets	(213)	(210)
Accounts Payable	(1,006)	(468)
Accrued Taxes	2,092	2,369
Accrued Interest	(941)	(984)
Employee Benefit Plans	678	706
Unearned Revenue & Advanced Service Fees	-	8
Other Liabilities	115	267
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>5,731</b>	<b>5,396</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Utility Plant Expenditures, Including AFUDC of \$49 in 2008 and \$58 in 2007	(6,327)	(3,620)
Restricted Cash	219	599
Preliminary Survey & Investigation Charges	(681)	(663)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(6,789)</b>	<b>(3,684)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Redemption of Long-term Debt	(490)	(425)
Proceeds from Issuance of Long-term Debt	343	41
Net Short-term Bank Borrowings	2,750	-
Deferred Debt Issuance Expenses	(28)	(30)
Common Stock Issuance Expense	-	(15)
Restricted Cash	-	(23)
Proceeds from Issuance of Common Stock	357	349
Payment of Common Dividends	(2,319)	(2,272)
Payment of Preferred Dividends	(62)	(62)
Construction Advances and Contributions-Net	(60)	137
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>491</b>	<b>(2,300)</b>



Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

NET CHANGES IN CASH AND CASH EQUIVALENTS	(567)	(588)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,029	5,826
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,462	\$ 5,238

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:

Utility Plant received as Construction Advances and Contributions	\$ 546	\$ 1,610
---	--------	----------

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

Cash Paid During the Year for:

Interest	\$ 2,546	\$ 2,461
Interest Capitalized	\$ (49)	\$ (58)
Income Taxes	\$ 701	\$ 15

See Notes to Condensed Consolidated Financial Statements.

Index

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

	March 31, 2008	December 31, 2007
Common Stock, No Par Value:		
Shares Authorized - 40,000		
Shares Outstanding - 2008 - 13,262	\$ 106,025	\$ 105,668
2007 - 13,246		
Retained Earnings	27,064	27,441
Accumulated Other Comprehensive Income, net of tax	57	69
<b>TOTAL COMMON EQUITY</b>	<b>\$ 133,146</b>	<b>\$ 133,178</b>
Cumulative Preference Stock, No Par Value:		
Shares Authorized - 100		
Shares Outstanding - None		
Cumulative Preferred Stock, No Par Value:		
Shares Authorized - 139		
Shares Outstanding - 37		
Convertible:		
Shares Outstanding, \$7.00 Series - 14	1,457	1,457
Shares Outstanding, \$8.00 Series - 12	1,399	1,399
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1	102	102
Shares Outstanding, \$4.75 Series - 10	1,000	1,000
<b>TOTAL PREFERRED STOCK</b>	<b>\$ 3,958</b>	<b>\$ 3,958</b>
Long-term Debt:		
8.05%, Amortizing Secured Note, due December 20, 2021	\$ 2,775	\$ 2,800
6.25%, Amortizing Secured Note, due May 22, 2028	8,470	8,575
6.44%, Amortizing Secured Note, due August 25, 2030	6,277	6,347
6.46%, Amortizing Secured Note, due September 19, 2031	6,557	6,627
4.22%, State Revolving Trust Note, due December 31, 2022	691	691
3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025	3,358	3,168
3.49%, State Revolving Trust Note, due January 25, 2027	743	603
4.03%, State Revolving Trust Note, due December 1, 2026	974	974
4.00% to 5.00%, State Revolving Trust Bond, due September 1, 2021	695	695
0.00%, State Revolving Fund Bond, due September 1, 2021	528	538
First Mortgage Bonds:		
5.20%, Series S, due October 1, 2022	12,000	12,000
5.25%, Series T, due October 1, 2023	6,500	6,500
6.40%, Series U, due February 1, 2009	15,000	15,000
5.25%, Series V, due February 1, 2029	10,000	10,000
5.35%, Series W, due February 1, 2038	23,000	23,000
0.00%, Series X, due September 1, 2018	581	591

Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

4.25% to 4.63%, Series Y, due September 1, 2018	765	765
0.00%, Series Z, due September 1, 2019	1,317	1,342
5.25% to 5.75%, Series AA, due September 1, 2019	1,785	1,785
0.00%, Series BB, due September 1, 2021	1,656	1,685
4.00% to 5.00%, Series CC, due September 1, 2021	1,995	1,995
5.10%, Series DD, due January 1, 2032	6,000	6,000
0.00%, Series EE, due September 1, 2024	7,004	7,112
3.00% to 5.50%, Series FF, due September 1, 2024	8,385	8,385
0.00%, Series GG, due September 1, 2026	1,685	1,710
4.00% to 5.00%, Series HH, due August 1, 2026	1,950	1,950
0.00%, Series II, due August 1, 2027	1,750	1,750
3.40% to 5.00%, Series JJ, due August 1, 2027	1,750	1,750
SUBTOTAL LONG-TERM DEBT	134,191	134,338
Less: Current Portion of Long-term Debt	(2,768)	(2,723)
TOTAL LONG-TERM DEBT	\$ 131,423	\$ 131,615

See Notes to Condensed Consolidated Financial Statements.

Index

MIDDLESEX WATER COMPANY  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

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), and Utility Service Affiliates (Perth Amboy) Inc. (USA-PA). 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 2007 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 March 31, 2008, the results of operations for the three month periods ended March 31, 2008 and 2007, and cash flows for the three month periods ended March 31, 2008 and 2007. Information included in the Condensed Consolidated Balance Sheet as of December 31, 2007, has been derived from the Company's audited financial statements for the year ended December 31, 2007.

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

Recent Accounting Pronouncements – In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157, Fair Value Measurements, which establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, Effective Date of FASB Statement No. 157, which deferred the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities. Adoption of SFAS 157 did not have a material impact on its financial statements.

FASB statement No. 141 (R) "Business Combinations" was issued in December of 2007. This Statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The Statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. This new pronouncement will impact the Company's accounting for business combinations completed beginning January 1, 2009.

Index

## Note 2 – Rate Matters

On April 29, 2008 Pinelands Water and Pinelands Wastewater filed with the New Jersey Board of Public Utilities (BPU) for base rate increases of 19.8% and 22.9%, respectively. These combined increase requests represent \$0.3 million of additional revenues needed to cover higher operations and maintenance costs of those systems. We cannot predict whether the BPU will ultimately approve, deny, or reduce the amount of our requests.

Effective January 1, 2008, Tidewater received approval from the Delaware Public Service Commission (PSC) to increase their Distribution System Improvement Charge (DSIC) from 0.17% to 1.62%. The DSIC increase is expected to generate approximately \$0.2 million of additional revenue.

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2008. The increase cannot exceed the lesser of the regional Consumer Price Index or 3%. The contracted rate schedule is set to expire on December 31, 2008. The Company is in the process of renegotiating the rate schedule.

## Note 3 – Capitalization

**Common Stock** –During the three months ended March 31, 2008, there were 15,710 common shares (approximately \$0.3 million) issued under the Company's Dividend Reinvestment and Common Stock Purchase Plan (DRP).

**Long-term Debt** – On March 18, 2008 Middlesex filed an application with the BPU seeking approval to issue up to \$4.0 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust under the New Jersey State Revolving Fund (SRF) program. If approved by the BPU, the Company expects to complete the transaction in November 2008. Proceeds from this financing will be used for the ongoing main cleaning and lining project in 2009. The Company expects a decision on this matter during the second quarter of 2008.

## 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)				
Three Months Ended March 31,				
Basic:	2008	Shares	2007	Shares
Net Income	\$ 2,004	13,254	\$ 1,769	13,176
Preferred Dividend	(62)		(62)	
Earnings Applicable to Common Stock	\$ 1,942	13,254	\$ 1,707	13,176
Basic EPS	\$ 0.15		\$ 0.13	
Diluted:				
Earnings Applicable to Common Stock	\$ 1,942	13,254	\$ 1,707	13,176
\$7.00 Series Preferred Dividend	24	167	24	167
\$8.00 Series Preferred Dividend	24	164	24	164
Adjusted Earnings Applicable to Common Stock	\$ 1,990	13,585	\$ 1,755	13,507
Diluted EPS	\$ 0.15		\$ 0.13	



Index

## 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 and Delaware. 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 the States of New Jersey and Delaware 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)	
	Three Months Ended	
	March 31,	
Operations by Segments:	2008	2007
Revenues:		
Regulated	\$ 18,422	\$ 16,688
Non – Regulated	2,484	2,345
Inter-segment Elimination	(51)	(45)
Consolidated Revenues	\$ 20,855	\$ 18,988
Operating Income:		
Regulated	\$ 3,891	\$ 3,466
Non – Regulated	456	256
Consolidated Operating Income	\$ 4,347	\$ 3,722
Net Income:		
Regulated	\$ 1,701	\$ 1,636
Non – Regulated	303	133
Consolidated Net Income	\$ 2,004	\$ 1,769
Capital Expenditures:		
Regulated	\$ 6,311	\$ 3,525
Non – Regulated	16	95
Total Capital Expenditures	\$ 6,327	\$ 3,620

	As of	As of
	March 31,	December
	2008	31,
		2007
Assets:		
Regulated	\$ 391,808	\$ 387,931
Non – Regulated	8,717	8,157
Inter-segment Elimination	(3,716)	(3,413)
Consolidated Assets	\$ 396,809	\$ 392,675

Index

Note 6 – Short-term Borrowings

As of March 31, 2008, the Company has established lines of credit aggregating \$33.0 million. At March 31, 2008, the outstanding borrowings under these credit lines were \$9.0 million at a weighted average interest rate of 4.06%.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were \$7.5 million and \$0 at 4.65% and none for the three months ended March 31, 2008 and 2007, respectively.

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, New Jersey (Perth Amboy) water and wastewater systems under contract through June 30, 2018. The agreement was effected under New Jersey's Water Supply Public/Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act. Under the agreement, USA-PA receives a fixed fee and in addition, a variable fee based on increased system billing. Scheduled fixed fee payments for 2008 are \$8.0 million. The fixed fees will increase over the term of the contract to \$10.2 million per year.

In connection with the agreement, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately \$68.0 million in three series of bonds. Middlesex guaranteed 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 March 31, 2008, approximately \$22.6 million of the Series C Serial Bonds remained outstanding.

Middlesex is 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. If Middlesex funds any debt service obligations as guarantor, Perth Amboy is required to reimburse the Company. There are other provisions in the agreement that make it unlikely that we would be required to perform under the guarantee, such as scheduled annual rate increases for water and wastewater services as well as rate increases that may be implemented at anytime by Perth Amboy. 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 per 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.



Index

Purchased water costs are shown below:

	(In Thousands)	
	Three Months Ended	
	March 31,	
	2008	2007
Purchased Water		
Treated	\$ 522	\$ 460
Untreated	605	598
Total Costs	\$ 1,127	\$ 1,058

Construction – The Company expects to spend approximately \$36.9 million on its construction program in 2008.

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 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 Retirement Benefit Plans

Pension – The Company has a noncontributory defined benefit pension plan, which covers all employees with more than 1,000 hours of service in a year. 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. In order to be eligible for an annual contribution, the eligible employee must be employed by the Company on December 31st of the year to which the award pertains. The Company expects to make cash contributions of approximately \$1.5 million to the defined benefit pension plan 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 maintains a postretirement benefit plan other than pensions for 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. Retiree contributions are dependent on credited years of service. The Company expects to make cash contributions to the plan of approximately \$1.5 million over the remainder of the current year.

Index

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

	(In Thousands)			
	Pension Benefits		Other Benefits	
	Three Months Ended March 31,			
	2008	2007	2008	2007
Service Cost	\$ 324	\$ 320	\$ 205	\$ 185
Interest Cost	452	453	224	212
Expected Return on Assets	(455)	(456)	(120)	(135)
Amortization of Unrecognized Losses	19	66	84	68
Amortization of Unrecognized Prior Service Cost	2	2	-	-
Amortization of Transition Obligation	-	-	34	34
Net Periodic Benefit Cost	\$ 342	\$ 385	\$ 427	\$ 364

#### Note 9 – Stock Based Compensation

The Company maintains an escrow account for 71,253 shares of the Company's common stock awarded under the 1997 Restricted Stock Plan, which has expired. Such stock is subject to an agreement requiring forfeiture by the employee in the event of termination of employment within five years of the award other than as a result of retirement, death, disability or change in control. The Company filed a petition with the BPU requesting approval of a stock-based compensation plan called the 2008 Restricted Stock Plan. The Company intends to seek shareholder approval for the new plan at its May 21, 2008 annual meeting of shareholders. The maximum number of shares authorized for grant under the proposed plan is 300,000 shares.

The Company has also filed a petition with the BPU requesting approval of a stock-based compensation plan for non-employee members of the Board of Directors called the Director Stock Compensation Plan. The Company intends to seek shareholder approval for the new plan at its May 21, 2008 annual meeting of shareholders. The maximum number of shares authorized for grant under the proposed plan is 100,000 shares.

The Company recognizes compensation expense at fair value for its restricted stock awards in accordance with SFAS 123(R), "Shared Based Payment". Compensation expense is determined by the market value of the stock on the date of the award and is being amortized over a five-year period. Compensation expense for the three months ended March 31, 2008 and 2007 was \$0.1 million. Total unearned compensation related to restricted stock was \$0.8 million and \$0.6 million at March 31, 2008 and 2007, respectively.

Index

## Note 10 – Other Comprehensive Income

Comprehensive income was as follows:

	(In Thousands)	
	Three Months Ended	
	March 31,	
	2008	2007
Net Income	\$ 2,004	\$ 1,769
Other Comprehensive Income (Loss):		
Change in Value of Equity Investments, Net of		
Income Tax	(12)	8
Other Comprehensive Income	(12)	8
Comprehensive Income	\$ 1,992	\$ 1,777

Index

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, 2007.

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;
  - statements regarding expectations and events concerning capital expenditures;
- statements as to the Company's expected liquidity needs during fiscal 2008 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 base rate increase requests;
  - new or additional water quality standards;
  - weather variations and other natural phenomena;
- the existence of 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; and
  - other factors discussed elsewhere in this quarterly report.

## Index

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, 2007.

## Overview

The Company has operated as a water utility in New Jersey since 1897, and in Delaware, through our wholly-owned subsidiary, Tidewater, since 1992. We are in the business of collecting, treating, distributing and selling water for residential, irrigation, 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. Our utility companies are regulated as to rates charged to customers for water and wastewater services in New Jersey and Delaware, as to the quality of service provided and as to certain other matters. Our USA, USA-PA and White Marsh subsidiaries are not regulated utilities.

Our New Jersey water utility system (the Middlesex System) provides water services to approximately 59,500 retail, commercial and fire service 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 collection system for the City of Perth Amboy, New Jersey. Pinelands Water and Pinelands Wastewater provide water and wastewater services to residents in Southampton Township, New Jersey.

Tidewater and Southern Shores provide water services to approximately 31,800 retail customers in New Castle, Kent, and Sussex Counties, Delaware. Our TESI subsidiary provides regulated wastewater service to approximately 1,400 residential retail customers. White Marsh serves approximately 5,700 customers under unregulated operating contracts with various owners of small water and wastewater systems in Kent and Sussex Counties.

USA provides customers both inside and outside of our service territories a service line maintenance program called LineCareSM. We offer a similar program for wastewater customers called LineCare+SM.

The majority of our revenue is generated from regulated water services to customers in our franchise 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 since the end of 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.

Index

## Recent Developments

## Rate Increases

On April 29, 2008 Pinelands Water and Pinelands Wastewater filed with the New Jersey Board of Public Utilities (BPU) for base rate increases of 19.8% and 22.9%, respectively. These combined increase requests represent \$0.3 million of additional revenues needed to cover higher operations and maintenance costs of their systems. We cannot predict whether the BPU will ultimately approve, deny, or reduce the amount of our requests.

Effective January 1, 2008, Tidewater received approval from the Delaware Public Service Commission (PSC) to increase their Distribution System Improvement Charge (DSIC) from 0.17% to 1.62%. The DSIC increase is expected to generate approximately \$0.2 million of additional revenue.

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2008. The increase cannot exceed the lesser of the regional Consumer Price Index or 3%. The contracted rate schedule is set to expire on December 31, 2008. The Company is in the process of renegotiating the rate schedule.

## Operating Results by Segment

The Company has two operating segments, Regulated and Non-Regulated. Our Regulated segment contributed 88% of total revenues and 85% of net income for the three months ended March 31, 2008. This segment contributed 88% of total revenues and 92% of net income over the same three month period ended March 31, 2007. The discussion of the Company's results of operations is on a consolidated basis, and includes significant factors by subsidiary. The segments in the tables included below consist of the following companies: Regulated-Middlesex, Tidewater, Pinelands, Southern Shores, and TESI; Non-Regulated- USA, USA-PA, and White Marsh.

## Results of Operations – Three Months Ended March 31, 2008

	(In Thousands)					
	Three Months Ended March 31,			2007		
	2008		Total	2007		Total
	Regulated	Non-Regulated		Regulated	Non-Regulated	
Revenues	\$ 18,422	\$ 2,433	\$ 20,855	\$ 16,688	\$ 2,300	\$ 18,988
Operations and maintenance expenses	10,208	1,890	12,098	9,216	1,954	11,170
Depreciation expense	1,902	29	1,931	1,814	31	1,845
Other taxes	2,421	58	2,479	2,192	59	2,251
Operating income	3,891	456	4,347	3,466	256	3,722
Other income, net	176	122	298	333	-	333
Interest expense	1,446	71	1,517	1,359	25	1,384
Income taxes	920	204	1,124	804	98	902
Net income	\$ 1,701	\$ 303	\$ 2,004	\$ 1,636	\$ 133	\$ 1,769

Index

Operating revenues for the three months ended March 31, 2008 increased \$1.9 million, or 9.8%, from the same period in 2007. Revenues in our Middlesex system increased \$1.1 million as a result of a 9.1% base rate increase implemented on October 26, 2007. Middlesex revenues also increased by \$0.2 million due to higher consumption by our customers in 2008. Revenues improved \$0.3 million in our Tidewater system, of which \$0.2 million was the result of an additional 12% rate increase implemented on February 28, 2007. Customer growth and higher consumption contributed \$0.3 million of revenues. Fees charged for initial connection to our Delaware Water system were \$0.2 million lower in 2008 as new residential and commercial development has slowed in our Delaware service territories. Revenues from our regulated wastewater operations in Delaware increased by \$0.1 million due to customer growth. All other operations accounted for \$0.2 million of additional revenues.

While we anticipate continued organic customer and consumption growth, particularly in our Delaware systems, such growth and increased consumption cannot be guaranteed. Revenues from our water systems are highly dependent on the effects of weather, which may adversely impact future consumption despite customer growth. Appreciable organic customer and consumption growth is less likely in our New Jersey systems due to the extent to which our service territory is developed. The Company expects its 2008 operating revenues to reflect the full effect of the October 2007 Middlesex \$5.0 million rate increase.

Operation and maintenance expenses for the three months ended March 31, 2008 increased \$0.9 million or 8.3%. Labor and benefits costs increased \$0.4 million due to increases in wages and benefits costs and increased headcount to meet the needs associated with continued growth in our Delaware service territory. Water Production costs were \$0.3 million higher due to increased sales in Delaware and higher costs for water, electric power, chemicals and disposal of residuals in New Jersey. The costs to operate our TESI regulated wastewater facilities in Delaware increased by \$0.1 million due to acquisition of the Milton, Delaware wastewater system during 2007. All other expense categories increased by \$0.1 million.

Depreciation expense increased by \$0.1 million, or 4.6%, primarily as a result of a higher level of utility plant in service since March 31, 2007.

Interest expense increased by \$0.1 million commensurate with higher short-term borrowings compared to the prior year period.

Other taxes increased by \$0.2 million generally reflecting additional taxes on higher taxable gross revenue, payroll and real estate.

Income taxes increased \$0.2 million as a result of increased operating income as compared to the prior year.

Net income increased by 13.3% from \$1.8 million to \$2.0 million. Basic earnings per share grew by 13.3% to \$0.15 for the three months ended March 31, 2008 compared to \$0.13 for the same period in 2007. Diluted earnings per share were \$0.15 and \$0.13 for three months ended March 31, 2008 and 2007, respectively.

Index

Liquidity and Capital Resources

Cash flows from operations are largely dependent on three factors: the impact of weather on water sales, adequate and timely rate increases, and customer growth. The effect of those factors on net income is discussed in results of operations. For the three months ended March 31, 2008, cash flows from operating activities were \$5.7 million, an increase of \$0.3 million from the prior year. This increase was attributable to increased earnings, and a decrease in customer receivables. These higher cash flows were partially offset by a decrease in accounts payable due to the timing of payments. The \$5.7 million of net cash flow from operations enabled us to fund 91% of our utility plant expenditures internally for the period, with the remainder funded with proceeds from requisitions under the Delaware State Revolving Fund (SRF) program loans.

The capital spending program for 2008 is currently estimated to be \$36.9 million. Through March 31, 2008, we have expended \$6.3 million. For the remainder of 2008 we expect to incur \$30.6 million of costs. We expect to spend an additional \$11.6 million for additions and improvements to our Delaware water systems; \$3.7 million for infrastructure additions for our Delaware wastewater systems; \$1.1 million towards implementation of a Company-wide information system upgrade; and \$3.5 million for the RENEW program, to complete the cleaning and cement lining of approximately nine miles of unlined water mains in the Middlesex system. There remains a total of approximately 112 miles of unlined mains in the 730-mile Middlesex system. The capital program also includes an additional \$10.7 million to be incurred over the remainder of 2008 for scheduled upgrades to our existing systems in New Jersey. The remaining spending for scheduled upgrades include \$3.4 million for improvements to existing plant, \$4.7 million for mains, \$0.5 million for service lines, \$0.3 million for meters, \$0.2 million for hydrants and \$1.6 million for other infrastructure needs.

To fund our capital program in 2008, we have utilized internally generated funds, and funds available under existing New Jersey SRF program loans (currently, \$3.5 million) and Delaware SRF program loans (currently, \$2.8 million). These programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks. If needed, we will also borrow funds through \$33.0 million of available lines of credit with several financial institutions. As of March 31, 2008, \$9.0 million was outstanding against the lines of credit.

We periodically issue shares of common stock in connection with our dividend reinvestment and stock purchase plan (DRP). From time to time, we may issue additional equity to reduce short-term indebtedness, fund our capital program, and for other general corporate purposes.

We currently project that we may be required to expend between \$88.4 million and \$121.8 million for capital projects in 2009 and 2010 combined. The exact amount is dependent on customer growth, residential housing sales and project scheduling. In particular, Middlesex has filed a prudence review application with the BPU for a proposed major transmission pipeline designed to strengthen its existing transmission network and provide system redundancy and reliability. Initial estimates to construct the pipeline are \$26.2 million. The duration and outcome of the BPU review process may affect the construction schedule as well as the project viability.

To the extent possible and because of favorable interest rates available to regulated water utilities, we expect to finance our capital expenditures under the SRF loan programs. We also expect to use internally generated funds and proceeds from the sale of common stock through the Dividend Reinvestment and Common Stock Purchase Plan. It may also be necessary to sell shares of our Common Stock through a public offering.

In addition to the effect of weather conditions on revenues, increases in certain operating costs will impact our liquidity and capital resources. We received rate relief for Middlesex in October 2007 and for Tidewater and Southern Shores on January 1, 2008. Changes in operating costs and timing of capital projects will have an impact on revenues, earnings, and cash flows and will also impact the timing of filings for future rate increases.





Index

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 capital program is partially financed with 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 Amortizing Secured Notes and First Mortgage Bonds, which have final maturity dates ranging from 2009 to 2038. Over the next twelve months, approximately \$2.7 million of the current portion of eighteen existing long-term debt instruments will mature. Applying a hypothetical change in the rate of interest of 10% on those borrowings would not have a material effect on earnings.

Item 4. Controls and Procedures

As required by Rule 13a-15 under 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. There have been no changes in the Company's internal controls or in other factors, which materially affected internal controls during the quarter ended March 31, 2008.

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.

Index

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to the Company's Annual Report on Form 10-K for the year ended December 31, 2007. Note 7 to the unaudited Condensed Consolidated Financial Statements for the period ended March 31, 2008, included in Part 1 of this Quarterly Report on Form 10-Q, is hereby incorporated by reference.

Item 1A. Risk Factors

We expect our revenues to increase from customer growth in Delaware for our regulated water operations and, to a lesser degree, our regulated wastewater operations as a result of the anticipated construction and sale of new housing units in the territories we serve. Although the residential building market in Delaware has experienced growth in recent years, this growth may not continue in the future. If housing starts in the Delaware territories we serve decline significantly as a result of economic conditions or otherwise, our revenue growth may not meet our expectations and our financial results could be negatively impacted.

Except as described above, information about risk factors for the three months ended March 31, 2008 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, 2007.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Index

Item 6.

Exhibits

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

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

32 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.

32.1 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.

19

---

Index

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

Date: May 6, 2008