

MIDDLESEX WATER CO
Form 10-Q
November 03, 2010

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 September 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).

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

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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 November 3, 2010:

Common Stock, No Par Value: 15,551,036 shares outstanding.

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

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2010	2009	2010	2009
Operating Revenues	\$29,585	\$25,498	\$77,768	\$69,164
Operating Expenses:				
Operations and Maintenance	14,036	13,285	41,205	39,222
Depreciation	2,387	2,174	6,827	6,370
Other Taxes	3,141	2,715	8,532	7,699
Total Operating Expenses	19,564	18,174	56,564	53,291
Operating Income	10,021	7,324	21,204	15,873
Other Income (Expense):				
Allowance for Funds Used During Construction	143	245	785	727
Other Income	172	432	532	760
Other Expense	(129)	(31)	(181)	(49)
Total Other Income, net	186	646	1,136	1,438
Interest Charges	1,819	1,791	5,125	4,949
Income before Income Taxes	8,388	6,179	17,215	12,362
Income Taxes	2,652	2,152	5,495	4,128
Net Income	5,736	4,027	11,720	8,234
Preferred Stock Dividend Requirements	52	52	156	156
Earnings Applicable to Common Stock	\$5,684	\$3,975	\$11,564	\$8,078
Earnings per share of Common Stock:				
Basic	\$0.37	\$0.30	\$0.81	\$0.60
Diluted	\$0.36	\$0.29	\$0.80	\$0.60
Average Number of Common Shares Outstanding :				
Basic	15,518	13,458	14,350	13,435
Diluted	15,781	13,720	14,613	13,698
Cash Dividends Paid per Common Share	\$0.1800	\$0.1775	\$0.5400	\$0.5325

See Notes to Condensed Consolidated Financial Statements.

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

		September 30,	December 31,
		2010	2009
ASSETS			
UTILITY PLANT:	Water Production	\$ 117,323	\$ 113,124
	Transmission and Distribution	303,243	293,269
	General	43,494	29,631
	Construction Work in Progress	12,529	17,547
	TOTAL	476,589	453,571
	Less Accumulated Depreciation	82,714	77,027
	UTILITY PLANT - NET	393,875	376,544
CURRENT ASSETS:			
	Cash and Cash Equivalents	3,090	4,278
	Accounts Receivable, net	14,119	10,616
	Unbilled Revenues	6,973	4,424
	Materials and Supplies (at average cost)	1,924	1,618
	Prepayments	1,597	1,109
	TOTAL CURRENT ASSETS	27,703	22,045
DEFERRED CHARGES			
	Unamortized Debt Expense	2,743	2,856
AND OTHER ASSETS:			
	Preliminary Survey and Investigation Charges	7,004	6,999
	Regulatory Assets	32,360	33,081
	Operations Contracts Fees Receivable	3,715	3,715
	Restricted Cash	4,761	5,266
	Non-utility Assets - Net	7,061	7,134
	Other	470	446
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	58,114	59,497
	TOTAL ASSETS	\$ 479,692	\$ 458,086
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:			
	Common Stock, No Par Value	\$ 139,111	\$ 109,366
	Retained Earnings	34,024	30,265
	TOTAL COMMON EQUITY	173,135	139,631
	Preferred Stock	3,362	3,373
	Long-term Debt	130,550	124,910
	TOTAL CAPITALIZATION	307,047	267,914
CURRENT LIABILITIES:			
	Current Portion of Long-term Debt	4,350	3,710
	Notes Payable	18,800	42,850
	Accounts Payable	5,516	4,348
	Accrued Taxes	9,624	5,686
	Accrued Interest	827	1,861
	Unearned Revenues and Advanced Service Fees	920	861

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	Other	1,406	1,352
	TOTAL CURRENT LIABILITIES	41,443	60,668
COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)			
DEFERRED CREDITS	Customer Advances for Construction	21,190	20,806
	Accumulated Deferred Investment Tax		
AND OTHER LIABILITIES:	Credits	1,245	1,303
	Accumulated Deferred Income Taxes	28,241	27,788
	Employee Benefit Plans	24,689	25,723
	Regulatory Liability - Cost of Utility Plant		
	Removal	7,230	6,738
	Other	129	275
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	82,724	82,633
CONTRIBUTIONS IN AID OF CONSTRUCTION		48,478	46,871
	TOTAL CAPITALIZATION AND LIABILITIES	\$ 479,692	\$ 458,086

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$11,720	\$8,234
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	7,387	6,827
Provision for Deferred Income Taxes and ITC	114	2,504
Equity Portion of AFUDC	(488)	(411)
Cash Surrender Value of Life Insurance	159	(310)
Stock Compensation Expense	277	232
Changes in Assets and Liabilities:		
Accounts Receivable	(3,503)	(3,311)
Unbilled Revenues	(2,549)	(624)
Materials & Supplies	(306)	(147)
Prepayments	(488)	(231)
Other Assets	(477)	(633)
Accounts Payable	1,168	(1,230)
Accrued Taxes	3,938	309
Accrued Interest	(1,034)	(1,109)
Employee Benefit Plans	(180)	999
Unearned Revenue & Advanced Service Fees	59	55
Other Liabilities	(54)	(1,032)
NET CASH PROVIDED BY OPERATING ACTIVITIES	15,743	10,122
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility Plant Expenditures, Including AFUDC of \$297 in 2010, \$316 in 2009	(22,223)	(15,889)
Restricted Cash	505	456
NET CASH USED IN INVESTING ACTIVITIES	(21,718)	(15,433)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of Long-term Debt	(3,720)	(17,843)
Proceeds from Issuance of Long-term Debt	10,000	12,014
Net Short-term Bank (Payments)/Borrowings	(24,050)	17,873
Deferred Debt Issuance Expenses	(7)	(116)
Common Stock Issuance Expense	(133)	-
Restricted Cash	-	(25)
Proceeds from Issuance of Common Stock	29,469	1,167
Repurchase of Preferred Stock	(11)	-
Payment of Common Dividends	(7,672)	(7,151)
Payment of Preferred Dividends	(156)	(156)
Construction Advances and Contributions-Net	1,067	(687)
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,787	5,076
NET CHANGES IN CASH AND CASH EQUIVALENTS	(1,188)	(235)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,278	3,288

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$3,090	\$3,053
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:		
Utility Plant received as Construction Advances and Contributions	\$924	\$2,986
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for:		
Interest	\$6,167	\$6,043
Interest Capitalized	\$(297)	\$(316)
Income Taxes	\$2,726	\$1,431

See Notes to Condensed Consolidated Financial Statements.

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

	September 30, 2010	December 31, 2009
Common Stock, No Par Value		
Shares Authorized - 40,000		
Shares Outstanding - 2010 - 15,530	\$ 139,111	\$ 109,366
2009 - 13,519		
Retained Earnings	34,024	30,265
TOTAL COMMON EQUITY	\$ 173,135	\$ 139,631
Cumulative Preferred Stock, No Par Value:		
Shares Authorized - 134		
Shares Outstanding - 32		
Convertible:		
Shares Outstanding, \$7.00 Series - 14	\$ 1,457	\$ 1,457
Shares Outstanding, \$8.00 Series - 7	816	816
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1	89	100
Shares Outstanding, \$4.75 Series - 10	1,000	1,000
TOTAL PREFERRED STOCK	\$ 3,362	\$ 3,373
Long-term Debt:		
8.05%, Amortizing Secured Note, due December 20, 2021	\$ 2,488	\$ 2,581
6.25%, Amortizing Secured Note, due May 19, 2028	7,420	7,735
6.44%, Amortizing Secured Note, due August 25, 2030	5,577	5,787
6.46%, Amortizing Secured Note, due September 19, 2031	5,857	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	3,655	3,687
3.49%, State Revolving Trust Note, due January 25, 2027	664	678
4.03%, State Revolving Trust Note, due December 1, 2026	884	903
4.00% to 5.00%, State Revolving Trust Bond, due August 1, 2021	524	625
0.00%, State Revolving Fund Bond, due August 1, 2021	397	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	6,482	6,743
7.05%, Amortizing Secured Note, due January 20, 2030	4,833	5,000
5.69%, Amortizing Secured Note, due January 20, 2030	9,915	-
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
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	430	483

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4.25% to 4.63%, Series Y, due September 1, 2018	590	650
0.00%, Series Z, due September 1, 2019	1,007	1,118
5.25% to 5.75%, Series AA, due September 1, 2019	1,440	1,560
0.00%, Series BB, due September 1, 2021	1,328	1,447
4.00% to 5.00%, Series CC, due September 1, 2021	1,680	1,790
5.10%, Series DD, due January 1, 2032	6,000	6,000
0.00%, Series EE, due August 1, 2023	5,224	5,642
3.00% to 5.50%, Series FF, due August 1, 2024	6,555	6,935
0.00%, Series GG, due August 1, 2026	1,440	1,530
4.00% to 5.00%, Series HH, due August 1, 2026	1,715	1,810
0.00%, Series II, due August 1, 2024	1,239	1,619
3.40% to 5.00%, Series JJ, due August 1, 2027	1,625	1,690
0.00%, Series KK, due August 1, 2028	1,616	1,705
5.00% to 5.50%, Series LL, due August 1, 2028	1,695	1,750
SUBTOTAL LONG-TERM DEBT	134,900	128,620
Less: Current Portion of Long-term Debt	(4,350)	(3,710)
TOTAL LONG-TERM DEBT	\$ 130,550	\$ 124,910

See Notes to Condensed Consolidated Financial Statements.

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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 September 30, 2010, the results of operations for the three and nine month periods ended September 30, 2010 and 2009 and cash flows for the nine month periods ended September 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.

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Note 2 – Rate Matters

In March 2010, Middlesex's application with the New Jersey Board of Public Utilities (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 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 nine months ended September 30, 2010, there were 94,463 common shares (approximately \$1.5 million) issued under the Company's Amended and Restated Dividend Reinvestment and Common Stock Purchase Plan (DRP).

Preferred Stock

In August 2010, the Company repurchased 108 shares of its \$7.00 Series, nonredeemable cumulative preferred stock for approximately \$11 thousand.

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.

Middlesex received approval from the NJBPU to issue up to \$4.0 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust under the New Jersey SRF program. The Company expects to complete the transaction in December 2010. Proceeds from this financing will be used for the 2011 main cleaning and lining project.

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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 market value of the Company's bonds were as follows:

	(Thousands of Dollars)			
	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
First Mortgage Bonds	\$ 85,084	\$ 85,556	\$ 87,230	\$ 84,429
SRF Bonds	\$ 921	\$ 942	\$ 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 \$48.9 million at September 30, 2010 and \$40.3 million at December 31, 2009. Customer advances for construction have a carrying amount of \$21.2 million at September 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	
		Shares		Shares
Basic:				
Net Income	\$ 5,736	15,518	\$ 4,027	13,458
Preferred Dividend	(52)	-	(52)	-
Earnings Applicable to Common Stock	\$ 5,684	15,518	\$ 3,975	13,458
Basic EPS	\$ 0.37		\$ 0.30	
Diluted:				
Earnings Applicable to Common Stock	\$ 5,684	15,518	\$ 3,975	13,458
\$7.00 Series Preferred Dividend	24	167	24	166
\$8.00 Series Preferred Dividend	14	96	14	96
Adjusted Earnings Applicable to Common Stock	\$ 5,722	15,781	\$ 4,013	13,720
Diluted EPS	\$ 0.36		\$ 0.29	

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(In Thousands Except per Share Amounts)

Basic:	2010		2009	
		Shares		Shares
Net Income	\$ 11,720	14,350	\$ 8,234	13,435
Preferred Dividend	(156)	-	(156)	-
Earnings Applicable to Common Stock	\$ 11,564	14,350	\$ 8,078	13,435
Basic EPS	\$ 0.81		\$ 0.60	
Diluted:				
Earnings Applicable to Common Stock	\$ 11,564	14,350	\$ 8,078	13,435
\$7.00 Series Preferred Dividend	73	167	73	167
\$8.00 Series Preferred Dividend	42	96	42	96
Adjusted Earnings Applicable to Common Stock	\$ 11,679	14,613	\$ 8,193	13,698
Diluted EPS	\$ 0.80		\$ 0.60	

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.

Operations by Segments:	(In Thousands)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
Revenues:	2010	2009	2010	2009
Regulated	\$ 27,062	\$ 22,943	\$ 70,083	\$ 61,407
Non – Regulated	2,826	2,806	8,183	8,197
Inter-segment Elimination	(303)	(251)	(498)	(440)
Consolidated Revenues	\$ 29,585	\$ 25,498	\$ 77,768	\$ 69,164
Operating Income:				
Regulated	\$ 9,560	\$ 6,607	\$ 19,781	\$ 14,248
Non – Regulated	461	717	1,423	1,625
Consolidated Operating Income	\$ 10,021	\$ 7,324	\$ 21,204	\$ 15,873
Net Income:				
Regulated	\$ 5,433	\$ 3,580	\$ 10,799	\$ 7,179
Non – Regulated	303	447	921	1,055
Consolidated Net Income	\$ 5,736	\$ 4,027	\$ 11,720	\$ 8,234

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	(In Thousands)			
	Three Months Ended September		Nine Months Ended September	
	2010	30, 2009	2010	30, 2009
Capital Expenditures:				
Regulated	\$ 6,211	\$ 3,943	\$ 22,121	\$ 15,877
Non – Regulated	31	3	102	12
Total Capital Expenditures	\$ 6,242	\$ 3,946	\$ 22,223	\$ 15,889
	As of	As of		
	September	December		
	30,	31,		
Assets:	2010	2009		
Regulated	\$ 475,467	\$ 451,734		
Non – Regulated	9,816	11,022		
Inter-segment Elimination	(5,591)	(4,670)		
Consolidated Assets	\$ 479,692	\$ 458,086		

Note 6 – Short-term Borrowings

As of September 30, 2010, the Company has established lines of credit aggregating \$58.0 million. At September 30, 2010, the outstanding borrowings under these credit lines were \$18.8 million at a weighted average interest rate of 1.48%.

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 September		Nine Months Ended September	
	2010	30, 2009	2010	30, 2009
Average Daily Amounts Outstanding	\$ 14,902	\$ 41,657	\$ 29,297	\$ 39,038
Weighted Average Interest Rates	1.53 %	1.61 %	1.59 %	1.77 %

The maturity dates for the \$18.8 million outstanding as of September 30, 2010 are all in October 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. Perth Amboy guaranteed the two other series of bonds. The Series C Serial Bonds have been refinanced by Perth Amboy and Middlesex is no longer a guarantor of any Perth Amboy debt.

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

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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		Nine Months	
	Ended September 30,		Ended September 30,	
	2010	2009	2010	2009
Treated	\$ 737	\$ 720	\$ 2,168	\$ 1,827
Untreated	618	625	1,753	1,736
Total Costs	\$ 1,355	\$ 1,345	\$ 3,921	\$ 3,563

Construction

The Company expects to spend approximately \$33.4 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 September 30, 2010 and 2009, the Company made Pension Plan cash contributions of \$0.8 million and \$0.8 million, respectively. For the nine months ended September 30, 2010 and 2009, the Company made Pension Plan cash contributions of \$1.4 million and \$1.9 million, respectively. The Company expects to make additional Pension Plan cash contributions of approximately \$1.6 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.

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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 September 30, 2010 and 2009, the Company made Other Benefits Plan cash contributions of \$0.5 million and \$0.3 million, respectively. For the nine months ended September 30, 2010 and 2009, the Company made Other Benefits Plan cash contributions of \$1.4 million and \$0.8 million, respectively. The Company expects to make additional Other Benefits Plan cash contributions of approximately \$0.9 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 September 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
	Nine Months Ended September 30,			
	2010	2009	2010	2009
Service Cost	\$ 1,047	\$ 1,029	\$ 769	\$ 668
Interest Cost	1,671	1,575	1,001	815
Expected Return on Assets	(1,515)	(1,202)	(569)	(447)
Amortization of Unrecognized Losses	380	462	399	370
Amortization of Unrecognized Prior Service Cost	7	7	-	-
Amortization of Transition Obligation	-	-	101	101
Net Periodic Benefit Cost	\$ 1,590	\$ 1,871	\$ 1,701	\$ 1,507

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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.

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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 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.

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Recent Developments

Middlesex received approval from the NJBPU to issue up to \$4.0 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust under the New Jersey SRF program. The Company expects to complete the transaction in December 2010. Proceeds from this financing will be used for the 2011 main cleaning and lining project.

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 for the remainder of 2010 as compared to 2009 from 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 timing and need for future rate increase requests. We continue to implement plans to improve the efficiency of operations and reduce operating costs on an ongoing basis.

In 2009 and through the first six months of 2010, economic conditions negatively impacted our customers' water consumption, particularly the level of water usage by our commercial and industrial customers in our Middlesex System. We have begun to see an increase in usage by our commercial and industrial customers since that time. 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 in 2009. Middlesex was given appropriate 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 recoverable in rates in the near term. 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

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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 increased return on assets held in our retirement benefit plans during 2009 resulted in an increase in funds available for current and future obligations. This increase partially mitigated retirement plan benefit expenses and retirement plan cash contributions in 2010.

Our strategy for growth in revenues and profitability includes acquisitions, ongoing expansion of our existing customer base, contract operations and when necessary, rate relief. We will continue to pursue water and wastewater 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 September 30, 2010

	(In Thousands)			2009		
	Three Months Ended September 30, 2010			Regulated	Non-Regulated	Total
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$27,062	\$ 2,523	\$29,585	\$22,943	\$ 2,555	\$25,498
Operations and maintenance expenses	12,079	1,957	14,036	11,545	1,740	13,285
Depreciation expense	2,351	36	2,387	2,131	43	2,174
Other taxes	3,072	69	3,141	2,660	55	2,715
Operating income	9,560	461	10,021	6,607	717	7,324
Other income, net	113	73	186	572	74	646
Interest expense	1,791	28	1,819	1,749	42	1,791
Income taxes	2,449	203	2,652	1,850	302	2,152
Net income	\$5,433	\$ 303	\$5,736	\$3,580	\$ 447	\$4,027

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Operating Revenues

Operating revenues for the three months ended September 30, 2010 increased \$4.1 million from the same period in 2009. This increase was primarily related to the following factors:

- Revenues in our Middlesex System increased \$3.4 million, primarily as a result of the following:
 - § Contract Sales to Municipalities increased by \$1.0 million from higher customer demand for water 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 \$2.0 million, primarily from the effects of the March 2010 base water rate increase (\$1.1 million) and increased customer demand for water (\$0.9 million). The increased demand primarily resulted from hot, dry weather and an increase in demand by our commercial and industrial customers. In 2009 and through the 2nd quarter of 2010, water consumption by our commercial and industrial customer class was below the historical average; and
 - § Facilities Charges increased by \$0.4 million, primarily from the March 2010 rate increase.
- Revenues from our Tidewater System increased \$0.7 million, primarily as a result of the following:
 - § Higher demand by our GMS customers (\$0.6 million); and
 - § A contract to temporarily provide water to Dover Air Force Base in Delaware (\$0.1 million).

Operation and Maintenance Expense

Operation and maintenance expenses for the three months ended September 30, 2010 increased \$0.8 million from the same period in 2009. This increase was primarily related to the following factors:

- Increased costs of \$0.1 million resulting from water main breaks in our Middlesex and Tidewater Systems;
- Increased labor costs of \$0.2 million related to higher average labor rates and increased overtime related to higher water production and increased water main breaks in our Tidewater System;
- Increased costs of \$0.2 million from the implementation of a Company-wide information technology platform in 2010;
 - Increased purchased power costs of \$0.1 million primarily related to increased water production; and
 - All other operating and maintenance expense categories increased \$0.2 million.

Depreciation

Depreciation expense for the three months ended September 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 three months ended September 30, 2010 increased \$0.4 million from the same period in 2009, primarily due to increased gross receipts and franchise taxes on higher taxable revenues in our Middlesex System.

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Other Income, net

Other Income, net for the three months ended September 30, 2010 decreased \$0.5 million from the same period in 2009, primarily related to the following factors:

- A decrease in Allowance for Funds Used During Construction (AFUDC) due to the completion of several longer term, large capital projects that were actively under construction during the prior year period (\$0.1 million);
- Decreased Other Income of \$0.3 million, primarily related to the sale of a non-operating asset in the third quarter of 2009; and
- Increased Other Expenses of \$0.1 million for costs related to potential projects at our Delaware subsidiaries.

Interest Charges

Interest charges for the three months ended September 30, 2010 were consistent with the same period in 2009, primarily from increased interest on long-term debt offset by decreased interest on short-term debt. In 2010, the Company has replaced some of its variable-rate, short-term loans under our lines of credit with long-term, fixed rate borrowings at a higher interest rates.

Income Taxes

Income taxes for the three months ended September 30, 2010 increased \$0.5 million from the same period in 2009, as a result of higher taxable income for the three months ended September 30, 2010 as compared to the same period in 2009.

Net Income and Earnings Per Share

Favorable results for the three months ended September 30, 2010 increased net income by \$1.7 million when compared to the same period in 2009. Basic and diluted earnings per share increased to \$0.37 and \$0.36, respectively, for the three months ended September 30, 2010 as compared to \$0.30 and \$0.29, respectively, for the three months ended September 30, 2009. The increase in earnings per share for the three months ended September 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 public offering of 1.9 million shares of common stock in June 2010.

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Results of Operations – Nine Months Ended September 30, 2010

(In Thousands)

	Nine Months Ended September 30, 2010			2009		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$70,083	\$ 7,685	\$77,768	\$61,407	\$ 7,757	\$69,164
Operations and maintenance expenses	35,263	5,942	41,205	33,380	5,842	39,222
Depreciation expense	6,713	114	6,827	6,256	114	6,370
Other taxes	8,326	206	8,532	7,523	176	7,699
Operating income	19,781	1,423	21,204	14,248	1,625	15,873
Other income, net	914	222	1,136	1,175	263	1,438
Interest expense	5,018	107	5,125	4,798	151	4,949
Income taxes	4,878	617	5,495	3,446	682	4,128
Net income	\$10,799	\$ 921	\$11,720	\$7,179	\$ 1,055	\$8,234

Operating Revenues

Operating revenues for the nine months ended September 30, 2010 increased \$8.6 million from the same period in 2009. This increase was primarily related to the following factors:

- Revenues in our Middlesex System increased \$6.1 million, primarily as a result of the following:
 - § Contract Sales to Municipalities increased by \$2.2 million due to higher customer demand for water and the March 2010 rate increase;
 - § Sales to GMS Customers increased by \$2.3 million from the implementation of the March 2010 base water rate increase (\$2.1 million) and increased customer demand for water (\$0.2 million). The increased demand primarily resulted from hot, dry weather and an increase in demand by our commercial and industrial customers in the 3rd quarter of 2010, which mitigated decreased demand through the six months ended June 30, 2010. In 2009 and through the 2nd quarter of 2010, water consumption by our commercial and industrial customer class was below the historical average;
 - § Facilities Charges increased by \$1.5 million from the March 2010 rate increase; and
 - § All other revenue categories increased \$0.1 million.
- Revenues in our Tidewater System increased \$2.4 million primarily from the following:
 - § Higher demand by our GMS customers (\$1.3 million);
 - § Increased base water rates that went into effect during 2009 (\$0.4 million);
 - § A contract to temporarily provide water to Dover Air Force Base in Delaware (\$0.4 million); and
 - § New customer growth increased connection fees and facilities charges (\$0.3 million).
- Additional services provided by White Marsh under non-regulated contracts increased revenues by \$0.1 million.

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Operation and Maintenance Expense

Operation and maintenance expenses for the nine months ended September 30, 2010 increased \$2.0 million from the same period in 2009. This increase was primarily related to the following factors:

- Increased costs of \$0.6 million due to 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 costs of \$0.5 million from the implementation of a Company-wide information technology platform; and
- Increased labor costs of \$0.5 million related to higher average labor rates and increased overtime related to higher water production and increased main breaks in our Middlesex and Tidewater Systems.

Depreciation

Depreciation expense for the nine months ended September 30, 2010 increased \$0.5 million from the same period in 2009 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the nine months ended September 30, 2010 increased \$0.8 million from the same period in 2009, primarily due to increased gross receipts and franchise taxes on higher taxable revenues in our Middlesex System.

Other Income, net

Other Income, net for the nine months ended September 30, 2010 decreased \$0.3 million from the same period in 2009, primarily related to the following factors:

- Decreased Other Income of \$0.2 million, primarily related to the sale of a non-operating asset in the third quarter of 2009;
- Increased Other Expenses of \$0.1 million for certain costs related to potential projects at our Delaware subsidiaries; and
- Increased AFUDC on several longer term, large capital projects that were actively under construction through June 30, 2010 which have since been placed into service (\$0.1 million).

Interest Charges

Interest charges for the nine months ended September 30, 2010 increased \$0.2 million from the same period in 2009, primarily from replacing variable-rate, short-term loans under our lines of credit with longer-term, fixed rate borrowings at higher interest rates.

Income Taxes

Income taxes for the nine months ended September 30, 2010 increased \$1.4 million from the same period in 2009, as a result of higher taxable income in 2010 as compared to 2009.

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Net Income and Earnings Per Share

Favorable results for the nine months ended September 30, 2010 increased net income by \$3.5 million when compared to the same period in 2009. Basic and diluted earnings per share increased to \$0.81 and \$0.80, respectively, for the nine months ended September 30, 2010 as compared to \$0.60 and \$0.60, respectively, for the nine months ended September 30, 2009. The increase in earnings per share for the nine months ended September 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 public offering 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 nine months ended September 30, 2010, cash flows from operating activities increased \$5.6 million to \$15.7 million. Increased earnings and the timing of certain tax and operating payments were the primary reasons for the increase in cash flow. The \$15.7 million of net cash flow from operations enabled us to fund approximately 70.8% 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 investment program for 2010 is currently estimated to be \$33.4 million. Through September 30, 2010, we have expended \$22.2 million and expect to incur approximately \$11.2 million for capital projects for the remainder of 2010.

We currently project that we may be required to expend approximately \$45 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, \$3.4 million) and Delaware SRF loans (currently, \$1.1 million). The SRF programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks; and
- Short-term borrowings, if necessary, through \$58.0 million of available lines of credit with several financial institutions. As of September 30, 2010, the outstanding borrowings under these credit lines had been reduced to \$18.8 million as compared to \$42.9 million at December 31, 2009, primarily resulting from the \$27.8 million of proceeds from the June 2010 common stock public offering of 1.9 million shares.

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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 \$2.0 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. There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

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 except as follows:

Reference is made to "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009, and the paragraph headed "We have a long-term contractual obligation for water and wastewater system operation and maintenance under which we may incur costs in excess of payments received."

In connection with our contract to operate and maintain the water and wastewater systems of the City of Perth Amboy, New Jersey, Middlesex had guaranteed Perth Amboy's obligation to make debt service payments on Middlesex County Improvement Authority Series C Serial Bonds (the "Series C Serial Bonds"), issued in the principal amount of approximately \$26.3 million. Perth Amboy has refunded the Series C Serial Bonds on terms which no longer require Middlesex to guarantee payment and accordingly, Middlesex is no longer exposed to the risk of payment under the guarantee.

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

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.

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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.

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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: November 3, 2010
