

MIDDLESEX WATER CO
Form 10-K
March 09, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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)

Securities registered pursuant to Section 12(b) of the Act:

| | |
|----------------------------|--|
| Title of Each Class: | Name of each exchange on which registered: |
| Common Stock, No Par Value | The NASDAQ Stock Market, LLC |

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 and posted on their 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 for such shorter period that the registrants were required to submit and post such files). Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2010 was \$245,798,155 based on the closing market price of \$15.85 per share.

The number of shares outstanding for each of the registrant's classes of common stock, as of March 4, 2011:

Common Stock, No par Value 15,386,657 shares outstanding

Documents Incorporated by Reference

Proxy Statement to be filed in connection with the Registrant's Annual Meeting of Stockholders to be held on May 24, 2011, which will be filed with the Securities and Exchange Commission within 120 days of the end of our 2010 fiscal year, is incorporated by reference into Part III.

MIDDLESEX WATER COMPANY
FORM 10-K

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Forward-Looking Statements

Certain statements contained in this annual 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. Middlesex Water Company (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 pace of housing development 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 annual report.

Many of these factors are beyond the Company’s ability to control or predict. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which only speak to the Company’s understanding as of the date of this report. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this prospectus 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.

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PART I

Item 1. Business.

Overview

Middlesex Water Company (“Middlesex”) was incorporated as a water utility company in 1897 and owns and operates regulated water utility and wastewater systems in New Jersey, Delaware and Pennsylvania. Middlesex also operates water and wastewater systems under contract on behalf of municipal and private clients in New Jersey and Delaware.

The terms “the Company,” “we,” “our,” and “us” refer to Middlesex Water Company and its subsidiaries, including Tidewater Utilities, Inc. (“Tidewater”) and Tidewater’s wholly-owned subsidiaries, Southern Shores Water Company, LLC (“Southern Shores”) and White Marsh Environmental Systems, Inc. (“White Marsh”). The Company’s other subsidiaries are 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”), Tidewater Environmental Services, Inc. (“TESI”) and Twin Lakes Utilities, Inc. (“Twin Lakes”).

Middlesex principal executive offices are located at 1500 Ronson Road, Iselin, New Jersey 08830. Our telephone number is (732) 634-1500. Our internet website address is <http://www.middlesexwater.com>. We make available, free of charge through our internet website, reports and amendments filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, after such material is electronically filed with or furnished to the United States Securities and Exchange Commission (the SEC).

Middlesex System

The Middlesex System in New Jersey provides water services to approximately 60,000 retail customers, primarily in eastern Middlesex County, New Jersey and provides water under wholesale contracts to the City of Rahway, Township of Edison, the Boroughs of Highland Park and Sayreville and both the Old Bridge and the Marlboro Township Municipal Utilities Authorities. The Middlesex System treats, stores and distributes water for residential, commercial, industrial and fire prevention purposes. The Middlesex System also provides water treatment and pumping services to the Township of East Brunswick under contract. The Middlesex System produced approximately 64% of our 2010 consolidated operating revenues.

The Middlesex System’s retail customers are located in an area of approximately 55 square miles in Woodbridge Township, the City of South Amboy, the Boroughs of Metuchen and Carteret, portions of the Township of Edison and the Borough of South Plainfield in Middlesex County and, to a minor extent, a portion of the Township of Clark in Union County. Retail customers include a mix of residential customers, large industrial concerns and commercial and light industrial facilities. These customers are located in generally well-developed areas of central New Jersey.

The contract customers of the Middlesex System comprise an area of approximately 146 square miles with a population of approximately 303,000. Contract sales to Edison, Sayreville, Old Bridge, Marlboro and Rahway are supplemental to the existing water systems of these customers. The Middlesex System provides treated surface water under long-term agreements to East Brunswick, Marlboro, Old Bridge and Sayreville consistent with a plan approved by the New Jersey Department of Environmental Protection.

Middlesex provides water service to approximately 300 customers in Cumberland County, New Jersey. This system is referred to as Bayview and is not physically interconnected with the Middlesex System. Bayview produced less than 1% of our 2010 consolidated operating revenues.

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Tidewater System

Tidewater, together with its wholly-owned subsidiary, Southern Shores, provides water services to approximately 34,000 retail customers for domestic, commercial and fire protection purposes in over 300 separate community water systems in New Castle, Kent and Sussex Counties, Delaware. White Marsh is an additional wholly-owned subsidiary that is unregulated as to rates and operates water and wastewater systems under contract for approximately 6,000 residential customers. White Marsh also owns the office buildings that Tidewater uses as its central business office campus. The Tidewater System produced approximately 25% of our 2010 consolidated operating revenues.

Utility Service Affiliates-Perth Amboy

USA-PA operates the City of Perth Amboy, New Jersey's water and wastewater systems under a 20-year agreement, which expires in 2018. USA-PA serves approximately 10,500 homes and businesses, most of which are served by both the water and wastewater systems. 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 fixed fees, and may receive variable fees, based on customer revenue growth. Fixed fee revenues increase over the term of the 20-year contract based upon a schedule of rates. USA-PA produced approximately 9% of our 2010 consolidated operating revenues.

In connection with the agreement with Perth Amboy, USA-PA entered into a 20-year subcontract with a wastewater operating company for the operation and maintenance of the Perth Amboy wastewater collection system. The subcontract provides for the sharing of certain fixed and variable fees and operating expenses.

Pinelands System

Pinelands Water provides water services to approximately 2,500 residential customers in Burlington County, New Jersey. Pinelands Water produced less than 1% of our 2010 consolidated operating revenues. Pinelands Water is not physically interconnected with the Middlesex System.

Pinelands Wastewater provides wastewater services to approximately 2,500 residential customers. Under contract, it also services one municipal wastewater system in Burlington County, New Jersey with approximately 200 residential customers. Pinelands Wastewater produced approximately 1% of our 2010 consolidated operating revenues.

Utility Service Affiliates, Inc.

USA provides residential customers in New Jersey and Delaware a water service line and sewer lateral maintenance program called LineCareSM and LineCare+SM, respectively. These are maintenance programs that cover, up to a specified limit, all parts, material and labor required to repair or replace specific elements of the customer's water service line, customer shut-off valve and/or sewer lateral, in the event of a failure. The Company's responsibility for maintenance costs under the programs is subject to annual limits. USA produced less than 1% of our 2010 consolidated operating revenues.

TESI System

TESI provides wastewater services to approximately 1,900 residential retail customers in Delaware. TESI produced less than 1% of our 2010 consolidated operating revenues.

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Twin Lakes System

Twin Lakes, acquired in November 2009, provides water services to approximately 120 residential customers in Shohola, Pennsylvania. Twin Lakes produced less than 1% of our 2010 consolidated operating revenues.

Financial Information

Consolidated operating revenues, operating income and net income are as follows:

| | (Thousands of Dollars) | | |
|--------------------|--------------------------|-----------|-----------|
| | Years Ended December 31, | | |
| | 2010 | 2009 | 2008 |
| Operating Revenues | \$ 102,735 | \$ 91,243 | \$ 91,038 |
| Operating Income | \$ 26,597 | \$ 20,161 | \$ 24,019 |
| Net Income | \$ 14,330 | \$ 9,977 | \$ 12,208 |

Operating revenues were earned from the following sources:

| | Years Ended December 31, | | | | | |
|---------------------|--------------------------|---|-------|---|-------|---|
| | 2010 | | 2009 | | 2008 | |
| Residential | 45.5 | % | 44.9 | % | 45.1 | % |
| Commercial | 9.7 | | 9.4 | | 9.6 | |
| Industrial | 8.7 | | 9.0 | | 9.3 | |
| Fire Protection | 9.7 | | 10.5 | | 10.4 | |
| Contract Sales | 14.6 | | 13.1 | | 13.1 | |
| Contract Operations | 9.7 | | 10.9 | | 10.5 | |
| Other | 2.1 | | 2.2 | | 2.0 | |
| Total | 100.0 | % | 100.0 | % | 100.0 | % |

Water Supplies and Contracts

Our New Jersey, Delaware and Pennsylvania water supply systems are physically separate and are not interconnected. In New Jersey, the Pinelands System and Bayview System are not interconnected with the Middlesex System or each other. We believe that we have adequate sources of water supply to meet the current service requirements of our present customers in New Jersey, Delaware and Pennsylvania.

Middlesex System

Our Middlesex System, which produced approximately 16.8 billion gallons in 2010, obtains water from surface sources and wells, or groundwater sources. In 2010, surface sources of water provided approximately 74% of the Middlesex System's water supply, groundwater sources provided approximately 19% from 31 wells and the balance was purchased from a non-affiliated water utility. Middlesex System's distribution storage facilities are used to supply water to customers at times of peak demand, outages and emergencies.

The principal source of surface water for the Middlesex System is the Delaware & Raritan Canal, which is owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority. Middlesex is under contract with the New Jersey Water Supply Authority, which expires November 30, 2023.

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The contract provides for average purchases of 27 million gallons per day (mgd) of untreated water from the Delaware & Raritan Canal, augmented by the Round Valley/Spruce Run Reservoir System. Surface water is pumped to, and treated at the Middlesex Carl J. Olsen (CJO) Water Treatment Plant. Middlesex also has an agreement with a non-affiliated regulated water utility for the purchase of treated water. This agreement provides for minimum purchase of 3.0 mgd of treated water with provisions for additional purchases.

Tidewater System

Our Tidewater System produced approximately 2.1 billion gallons in 2010 from 162 wells. In 2010, 3 new wells were placed into service and we retired 1 well for the purpose of consolidating production facilities for more cost-efficient operation. Tidewater expects to continue to submit applications to Delaware regulatory authorities for the approval of additional wells as growth, demand and water quality warrant. The Tidewater System does not have a central treatment facility but has several regional, as well as several smaller independent, treatment plants. Several of its water systems in New Castle, Kent and Sussex Counties, Delaware have interconnected transmission systems.

Pinelands System

Water supply to our Pinelands System is derived from four wells which produced approximately 185.3 million gallons in 2010. The pumping capacity of the four wells is 2.2 million gallons per day.

Pinelands Wastewater System

The Pinelands Wastewater System discharges into the South Branch of the Rancocas Creek through a tertiary treatment plant that provides clarification, sedimentation, filtration and disinfection. The total capacity of the plant is 0.5 mgd, and the system treated approximately 107.6 million gallons in 2010.

Bayview System

Water supply to Bayview customers is derived from two wells, which delivered approximately 9.4 million gallons in 2010.

TESI System

The TESI System owns and operates six wastewater treatment systems in Southern Delaware. The treatment plants provide clarification, sedimentation, and disinfection. The combined total treatment capacity of the plants is 0.6 mgd. The TESI System treated approximately 79.5 million gallons in 2010.

Twin Lakes System

Water supply to Twin Lakes' customers is derived from two wells, which delivered approximately 23.8 million gallons in 2010.

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Employees

As of December 31, 2010, we had a total of 292 employees. No employees are represented by a union. We believe our employee relations are good. Wages and benefits are reviewed annually and are considered competitive within both the industry and the regions where we operate.

Competition

Our business in our franchised service area is substantially free from direct competition with other public utilities, municipalities and other entities. However, our ability to provide contract water supply and wastewater services and operations and maintenance services is subject to competition from other public utilities, municipalities and other entities. Although Tidewater has been granted an exclusive franchise for each of its existing community water systems, its ability to expand service areas can be affected by the Delaware Public Service Commission awarding franchises to other regulated water utilities with whom we compete for such franchises and for projects.

Regulation

Our rates charged to customers for water and wastewater services, the quality of the services we provide and certain other matters are regulated by the following state utility commissions (collectively, the Utility Commissions):

- New Jersey-New Jersey Board of Public Utilities (NJBPU)
- Delaware-Delaware Public Service Commission (DEPSC)
- Pennsylvania-Pennsylvania Public Utilities Commission (PAPUC)

Our USA, USA-PA and White Marsh subsidiaries are not regulated public utilities. However they are subject to environmental regulation with respect to water and wastewater effluent quality.

We are subject to environmental and water quality regulation by the following regulatory agencies (collectively, the Government Environmental Regulatory Agencies):

- United States Environmental Protection Agency (EPA)
- New Jersey Department of Environmental Protection (NJDEP) with respect to operations in New Jersey
- Delaware Department of Natural Resources and Environmental Control (DEDNREC), the Delaware Department of Health and Social Services-Division of Public Health (DEDPH), and the Delaware River Basin Commission (DRBC) with respect to operations in Delaware
- Pennsylvania Department of Environmental Protection (PADEP) with respect to operations in Pennsylvania

In addition, our issuances of equity securities are subject to the prior approval of the NJBPU and require registration with the SEC. Our issuances of long-term debt securities are subject to the prior approval of the appropriate Utility Commissions.

Regulation of Rates and Services

For ratemaking purposes, we account separately for operations in New Jersey, Delaware and Pennsylvania to facilitate independent ratemaking by the applicable Utility Commissions.

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In determining our rates, the respective Utility Commissions consider the income, expenses, rate base of property used and useful in providing service to the public and a fair rate of return on investments within their separate jurisdictions. Rate determinations by the respective Utility Commissions do not guarantee particular rates of return to us for our New Jersey, Delaware and Pennsylvania operations. Thus, we may not achieve the rates of return permitted by the Utility Commissions. In addition, there can be no assurance that any future rate increases will be granted or, if granted, that they will be in the amounts requested.

Middlesex Rate Matters

In January 2011, Middlesex filed an application with the NJBPU seeking permission to establish a Purchased Water Adjustment Clause (PWAC) and implement a tariff rate sufficient to recover increased costs of \$0.4 million to purchase untreated water from the New Jersey Water Supply Authority and treated water from a non-affiliated regulated water utility. We cannot predict whether the NJBPU will ultimately approve, deny, or reduce the amount of the request.

In March 2010, a settlement was reached with respect to Middlesex's application with the NJBPU seeking permission to increase its base water rates. The NJBPU granted 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 provide a return on invested capital in rate base of \$180.3 million based on a return on equity of 10.30%.

Tidewater Rate Matters

A Distribution System Improvement Charge (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. The following summarizes Tidewater's approved DSIC rates from January 1, 2010 through January 1, 2011:

| Date | January 1, 2010 | July 1, 2010 | January 1, 2011 |
|-----------------------|-----------------|--------------|-----------------|
| % Increase (Decrease) | 1.11% | (0.04)% | 0.27% |
| Cumulative % | 1.11% | 1.07% | 1.34% |

Future Rate Filings

Middlesex and several of its subsidiaries are expected to file for rate increases in 2011. There can be no assurances however, that the respective Utility Commissions will approve the anticipated rate increase requests in whole or in part. In addition, the timing of approval of these rate requests is presently not known.

Water and Wastewater Quality and Environmental Regulations

Government Environmental Regulatory Agencies regulate our operations in New Jersey, Delaware and Pennsylvania with respect to water supply, treatment and distribution systems and the quality of the water. They also regulate our operations with respect to wastewater collection and treatment.

Regulations relating to water quality require us to perform tests to ensure our water meets state and federal quality requirements. In addition, Government Environmental Regulatory Agencies continuously review current regulations governing the limits of certain organic compounds found in the water as byproducts of the treatment process. We participate in industry-related research to identify the various types of technology that might reduce the level of organic, inorganic and synthetic compounds found in the water. The cost to water companies of complying with the

proposed water quality standards depends in part on the limits set in the regulations and on

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the method selected to treat the water to the required standards. We regularly test our water to determine compliance with existing government environmental regulatory agencies' primary water quality standards.

Well water treatment in our Middlesex System is by chlorination for disinfection purposes. In addition, at certain locations, air stripping is used for removal of volatile organics removal.

Surface water treatment in our Middlesex System is by conventional treatment; coagulation, sedimentation and filtration. The treatment process includes pH adjustment, chlorination for disinfection, and corrosion control for the distribution system.

Well water treatment in our Tidewater System is by chlorination for disinfection purposes and, in some cases, pH correction and filtration for nitrate and iron removal.

Well water treatment in the Pinelands, Bayview and Twin Lakes Systems (disinfection only) is performed at individual well sites.

The NJDEP, DEDPH and PADEP monitor our activities and review the results of water quality tests that are performed for adherence to applicable regulations. Other applicable regulations include the Federal Lead and Copper Rule, maximum contaminant levels established for various volatile organic compounds, the Federal Surface Water Treatment Rule and the Federal Total Coliform Rule.

Seasonality

Customer demand for our water during the warmer months is generally greater than other times of the year due primarily to additional consumption of water in connection with irrigation systems, swimming pools, cooling systems and other outside water use. Throughout the year, and particularly during typically warmer months, demand may vary with temperature and rainfall timing and overall levels. In the event that temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the customer demand for our water may decrease and therefore, adversely affect our revenues.

Management

This table lists information concerning our executive management team:

| Name | Age | Principal Position(s) |
|----------------------|-----|---|
| Dennis W. Doll | 52 | President, Chief Executive Officer and Chairman of the Board of Directors |
| A. Bruce O'Connor | 52 | Vice President and Chief Financial Officer |
| Richard M. Risoldi | 54 | Vice President-Operations and Chief Operating Officer |
| Kenneth J. Quinn | 63 | Vice President-General Counsel, Secretary and Treasurer |
| James P. Garrett | 64 | Vice President-Human Resources |
| Bernadette M. Sohler | 50 | Vice President-Corporate Affairs |
| Gerard L. Esposito | 59 | President, Tidewater Utilities, Inc. |

Dennis W. Doll – Mr. Doll joined the Company in November 2004 as Executive Vice President. He was elected President and Chief Executive Officer and became a Director of Middlesex effective January 1, 2006. In May 2010, he was elected Chairman of the Board of Directors of Middlesex. He is also Chairman for all subsidiaries of Middlesex. Prior to joining the Company, Mr. Doll had been employed in the regulated water utility business since 1985. Mr. Doll is Chairman of the Board of Directors of the New Jersey Utilities Association and is a Director of the National Association of Water Companies and the Water Research Foundation.

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A. Bruce O'Connor – Mr. O'Connor, a Certified Public Accountant, joined the Company in 1990 and was elected Vice President and Chief Financial Officer in 1996. He is responsible for financial reporting, customer service, rate cases, cash management and financings. He is Treasurer and a Director of Tidewater Utilities, Inc., Tidewater Environmental Services, Inc., Utility Service Affiliates, Inc., and White Marsh Environmental Systems, Inc. He is Vice President, Treasurer and a Director of Utility Service Affiliates (Perth Amboy) Inc., Pinelands Water Company and Pinelands Wastewater Company. He is also Vice President and Chief Financial Officer of Twin Lakes Utilities, Inc.

Richard M. Risoldi – Mr. Risoldi joined the Company in 1989 as Director of Production, responsible for the operation and maintenance of the Company's treatment and pumping facilities. He was appointed Assistant Vice President of Operations in 2003. He was elected Vice President-Subsidiary Operations in May 2004, responsible for regulated and unregulated subsidiary operations and business development. In January 2010, he became Vice President – Operations and Chief Operating Officer. He is a Director of Tidewater Utilities, Inc., Tidewater Environmental Services, Inc., White Marsh Environmental Systems Inc and Utility Service Affiliates (Perth Amboy) Inc. He also serves as Director and President of Pinelands Water Company, Pinelands Wastewater Company, Utility Service Affiliates, Inc. and Twin Lakes Utilities, Inc.

Kenneth J. Quinn – Mr. Quinn joined the Company in 2002 as General Counsel and was elected Assistant Secretary in 2003. In 2004, Mr. Quinn was elected Vice President, Secretary and Treasurer for Middlesex and Secretary and Assistant Treasurer for all subsidiaries of Middlesex. Prior to joining the Company he had been employed in private law practice as well as by two major banking institutions located in New Jersey. He is a member of the New Jersey State Bar Association and its Public Utility Law Section.

James P. Garrett – Mr. Garrett, a licensed attorney, joined the Company in 2003 as Assistant Vice President–Human Resources. In May 2004, he was elected Vice President- Human Resources and is responsible for all human resources and information technology throughout the Company. Prior to his hire, Mr. Garrett was employed by a national retail chain as Director of Organizational Development.

Bernadette M. Sohler – Ms. Sohler joined the Company in 1994 and was named Director of Communications in 2003 and promoted to Vice President-Corporate Affairs in March 2007 with responsibilities for corporate, investor and employee communications, media and government relations, marketing, community affairs and corporate philanthropic activities. She also serves as Vice President of Utility Service Affiliates, Inc. Prior to joining the Company, Ms. Sohler held marketing and public relations management positions in the financial services industry.

Gerard L. Esposito – Mr. Esposito joined Tidewater Utilities, Inc. in 1998 as Executive Vice President. He was elected President of Tidewater and White Marsh Environmental Systems, Inc. in 2003 and elected President of Tidewater Environmental Services, Inc. in January 2005. Prior to joining the Company he worked in various executive positions for Delaware environmental protection and water quality governmental agencies. He is a Director of Tidewater Utilities, Inc., Tidewater Environmental Services, Inc., and White Marsh Environmental Systems, Inc.

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Item 1A. Risk Factors.

Our revenue and earnings depend on the rates we charge our customers. We cannot raise utility rates in our regulated businesses without filing a petition with the appropriate Utility Commissions. If these agencies modify, delay, or deny our petition, our revenues will not increase and our earnings will decline unless we are able to reduce costs.

The NJBPU regulates our public utility companies in New Jersey with respect to rates and charges for service, classification of accounts, awards of new service territory, acquisitions, financings and other matters. That means, for example, that we cannot raise the utility rates we charge to our customers without first filing a petition with the NJBPU and going through a lengthy administrative process. In much the same way, the DEPSC and the PAPUC regulate our public utility companies in Delaware and Pennsylvania, respectively. We cannot give assurance of when we will request approval for any such matter, nor can we predict whether these Utility Commissions will approve, deny or reduce the amount of such requests.

Certain costs of doing business are not completely within our control. The failure to obtain any rate increase would prevent us from increasing our revenues and, unless we are able to reduce costs, would result in reduced earnings.

General economic conditions may materially and adversely affect our financial condition and results of operations.

Recent economic conditions have negatively impacted our customers' water usage demands, particularly the level of water usage demand by our commercial and industrial customers in our Middlesex System. We are unable to determine when these customers' water demands may return to previous levels, or if the decline in demand will continue indefinitely. If water demand by our commercial and industrial customers in our Middlesex System does not return to previous levels, our financial condition and results of operations could be negatively impacted.

Recent economic conditions have also impacted the volume and pace of residential construction in our Delaware markets and in other states where developer-projects are in various stages of completion. The timing and extent of recovery of our engineering and other preliminary survey and investigation (PS&I) charges either from the construction of a project that yields customers or from reimbursements from a developer is dependent upon the timing and extent to which such projects may or may not be further developed or from our ability to collect amounts contractually owed to us. If it is determined that recovery is unlikely, the applicable PS&I costs will be charged against income in the period of determination.

We are subject to environmental laws and regulations, including water quality and wastewater effluent quality regulations, as well as other state and local regulations. Compliance with those laws and regulations requires us to incur costs and we are subject to fines or other sanctions for non-compliance

Government Environmental Regulatory Agencies regulate our operations in New Jersey, Delaware and Pennsylvania with respect to water supply, treatment and distribution systems and the quality of water. Government Environmental Regulatory Agencies' regulations relating to water quality require us to perform expanded types of testing to ensure that our water meets state and federal water quality requirements. We are subject to EPA regulations under the Federal Safe Drinking Water Act, which include the Lead and Copper Rule, the maximum contaminant levels established for various volatile organic compounds, the Federal Surface Water Treatment Rule and the Total Coliform Rule. There are also similar NJDEP regulations for our New Jersey water systems. The NJDEP, DEDPH and PADEP monitor our activities and review the results of water

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quality tests that we perform for adherence to applicable regulations. In addition, Government Environmental Regulatory Agencies are continually reviewing regulations governing the limits of certain organic compounds found in the water as byproducts of treatment.

We are also subject to regulations related to fire protection services in New Jersey and Delaware. In New Jersey there is no state-wide fire protection regulatory agency. However, New Jersey regulations exist as to the size of piping required regarding the provision of fire protection services. In Delaware, fire protection is regulated statewide by the Office of State Fire Marshal.

The cost of compliance with the water and wastewater effluent quality standards depends in part on the limits set in the regulations and on the method selected to implement them. If new or more restrictive standards are imposed, the cost of compliance could be very high and have an adverse impact on our revenues and results of operations if we cannot recover those costs through our rates that we charge our customers. The cost of compliance with fire protection requirements could also be high and make us less profitable if we cannot recover those costs through our rates charged to our customers.

In addition, if we fail to comply with environmental or other laws and regulations to which our business is subject, we could be fined or subject to other sanctions, which could adversely impact our business or results of operations.

We depend upon our ability to raise money in the capital markets to finance some of the costs of complying with laws and regulations, including environmental laws and regulations or to pay for some of the costs of improvements to or the expansion of our utility system assets. Our regulated utility companies cannot issue debt or equity securities without regulatory approval.

We require financing to fund the ongoing capital program for the improvement of our utility system assets and for planned expansion of those systems. We expect to spend approximately \$66.0 million for capital projects through 2013. We must obtain regulatory approval to sell debt or equity securities to raise money for these projects. If sufficient capital is not available or the cost of capital is too high, or if the regulatory authorities deny a petition of ours to sell debt or equity securities, we may not be able to meet the costs of complying with environmental laws and regulations or the costs of improving and expanding our utility system assets to the level we believe necessary. This might result in the imposition of fines or restrictions on our operations and may curtail our ability to improve upon and expand our utility system assets.

Weather conditions and overuse of underground aquifers may interfere with our sources of water, demand for water services and our ability to supply water to customers.

Our ability to meet the existing and future water demands of our customers depends on an adequate supply of water. Unexpected conditions may interfere with our water supply sources. Drought and overuse of underground aquifers may limit the availability of ground and/or surface water. Freezing weather may also contribute to water transmission interruptions caused by pipe and/or main breakage. Any interruption in our water supply could cause a reduction in our revenue and profitability. These factors might adversely affect our ability to supply water in sufficient quantities to our customers. Governmental drought restrictions might result in decreased use of water services and can adversely affect our revenue and earnings.

Our business is subject to seasonal fluctuations, which could affect demand for our water service and our revenues.

Demand for our water during the warmer months is generally greater than during cooler months due primarily to additional consumption of water in connection with irrigation systems, swimming pools, cooling systems and

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other outside water use. Throughout the year, and particularly during typically warmer months, demand may vary with temperature and rainfall levels. In the event that temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the demand for our water may decrease and adversely affect our revenues.

Our water sources may become contaminated by naturally-occurring or man-made compounds and events. This may cause disruption in services and impose costs to restore the water to required levels of quality.

Our sources of water may become contaminated by naturally-occurring or man-made compounds and events. In the event that our water supply is contaminated, we may have to interrupt the use of that water supply until we are able to install treatment equipment or substitute the flow of water from an uncontaminated water source through our transmission and distribution systems. We may also incur significant costs in treating the contaminated water through the use of our current treatment facilities, or development of new treatment methods. Our inability to substitute water supply from an uncontaminated water source, or to adequately treat the contaminated water source in a cost-effective manner may reduce our revenues and make us less profitable.

We face competition from other water and wastewater utilities and service providers which might hinder our growth and reduce our profitability.

We face risks of competition from other utilities authorized by federal, state or local agencies. Once a state utility regulator grants a franchise to a utility to serve a specific territory, that utility effectively has an exclusive right to service that territory. Although a new franchise offers some protection against competitors, the pursuit of franchises is competitive, especially in Delaware, where new franchises may be awarded to utilities based upon competitive negotiation. Competing utilities have challenged, and may in the future challenge, our applications for new franchises. Also, third parties entering into long-term agreements to operate municipal systems might adversely affect us and our long-term agreements to supply water on a contract basis to municipalities, which could adversely affect our operating results.

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.

USA-PA operates and maintains the water and wastewater systems of the City of Perth Amboy, New Jersey under a 20-year contract expiring in 2018. This contract does not protect us against incurring costs in excess of revenues we earn pursuant to the contract. There can be no absolute assurance that we will not experience losses resulting from this contract. Losses under this contract, or our failure or inability to perform, may have a material adverse effect on our financial condition and results of operations.

An important element of our growth strategy is the acquisition of water and wastewater assets, operations, contracts or companies. Any pending or future acquisitions we decide to undertake may involve risks.

The acquisition and/or operation of water and wastewater systems is an important element in our growth strategy. This strategy depends on identifying suitable opportunities and reaching mutually agreeable terms with acquisition candidates or contract partners. These negotiations, as well as the integration of acquired businesses, could require us to incur significant costs and cause diversion of our management's time and resources. Further, acquisitions may result in dilution of our equity securities, incurrence of debt and contingent liabilities, fluctuations in quarterly results and other related expenses. In addition, the assets, operations, contracts or companies we acquire may not achieve the sales and profitability expected.

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The current concentration of our business in central New Jersey and Delaware makes us susceptible to any adverse development in local regulatory, economic, demographic, competitive and weather conditions.

Our New Jersey water and wastewater businesses provide services to customers who are located primarily in eastern Middlesex County, New Jersey. Water service is provided under wholesale contracts to the Township of Edison, the Boroughs of Highland Park and Sayreville, both the Old Bridge and the Marlboro Township Municipal Utilities Authorities, and the City of Rahway in Union County, New Jersey. We also provide water and wastewater services to customers in the State of Delaware. Our revenues and operating results are therefore subject to local regulatory, economic, demographic, competitive and weather conditions in a relatively concentrated geographic area. A change in any of these conditions could make it more costly or difficult for us to conduct our business. In addition, any such change would have a disproportionate effect on us, compared to water utility companies that do not have such a geographic concentration.

The necessity for ongoing security has and may continue to result in increased operating costs.

Because of the continuing threats to the health and security of the United States of America, we employ procedures to review and modify, as necessary, security measures at our facilities. We provide ongoing training and communications to our employees about threats to our water supply and to their personal safety. Our security measures include protocols regarding delivery and handling of certain chemicals used in our business. We are at risk for terrorist attacks and have incurred, and will continue to incur, costs for security measures to protect our facilities, operations and supplies from such risks.

Our ability to achieve growth in our market area is dependent on the residential building market. Housing starts impact our rate of growth and therefore, may not meet our expectations.

We expect our revenues to increase from customer growth for our regulated water and wastewater operations as a result of anticipated construction and sale of new housing units. Although the residential building market in Delaware has experienced growth in recent years, this growth has slowed due to current economic conditions. If housing starts decline further, or do not increase as we have projected, as a result of economic conditions or otherwise, the timing and extent of our revenue growth may not meet our expectations, our deferred project costs may not produce revenue-generating projects in the timeframes anticipated and our financial results could be negatively impacted.

There can be no assurance that we will continue to pay dividends in the future or, if dividends are paid, that they will be in amounts similar to past dividends.

We have paid dividends on our common stock each year since 1912 and have increased the amount of dividends paid each year since 1973. Our earnings, financial condition, capital requirements, applicable regulations and other factors, including the timeliness and adequacy of rate increases, will determine both our ability to pay dividends on common stock and the amount of those dividends. There can be no assurance that we will continue to pay dividends in the future or, if dividends are paid, that they will be in amounts similar to past dividends.

If we are unable to pay the principal and interest on our indebtedness as it comes due or we default under certain other provisions of our loan documents, our indebtedness could be accelerated and our results of operations and financial condition could be adversely affected.

Our ability to pay the principal and interest on our indebtedness as it comes due will depend upon our current and future performance. Our performance is affected by many factors, some of which are beyond our control. We believe that our cash generated from operations, and, if necessary, borrowings under our existing credit

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facilities will be sufficient to enable us to make our debt payments as they become due. If, however, we do not generate sufficient cash, we may be required to refinance our obligations or sell additional equity, which may be on terms that are not as favorable to us.

No assurance can be given that any refinancing or sale of equity will be possible when needed or that we will be able to negotiate acceptable terms. In addition, our failure to comply with certain provisions contained in our trust indentures and loan agreements relating to our outstanding indebtedness could lead to a default under these documents, which could result in an acceleration of our indebtedness.

We depend significantly on the services of the members of our senior management team, and the departure of any of those persons could cause our operating results to suffer.

Our success depends significantly on the continued individual and collective contributions of our senior management team. If we lose the services of any member of our senior management or are unable to hire and retain experienced management personnel, our operating results could be negatively impacted.

We are subject to anti-takeover measures that may be used by existing management to discourage, delay or prevent changes of control that might benefit non-management shareholders.

Subsection 10A of the New Jersey Business Corporation Act, known as the New Jersey Shareholders Protection Act, applies to us. The Shareholders Protection Act deters merger proposals, tender offers or other attempts to effect changes in control that are not approved by our Board of Directors. In addition, we have a classified Board of Directors, which means only one-third of the Directors are elected each year. A classified Board can make it harder for an acquirer to gain control by voting its candidates onto the Board of Directors and may also deter merger proposals and tender offers. Our Board of Directors also has the ability, subject to obtaining NJBPU approval, to issue one or more series of preferred stock having such number of shares, designation, preferences, voting rights, limitations and other rights as the Board of Directors may fix. This could be used by the Board of Directors to discourage, delay or prevent an acquisition that might benefit non-management shareholders.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Utility Plant

The water utility plant in our systems consist of source of supply, pumping, water treatment, transmission and distribution, general facilities and all appurtenances, including all connecting pipes.

The wastewater utility plant in our systems consist of pumping, treatment, collection mains, general facilities and all appurtenances, including all connecting pipes.

Middlesex System

The Middlesex System's principal source of surface supply is the Delaware & Raritan Canal owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority.

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Water is withdrawn from the Delaware & Raritan Canal at New Brunswick, New Jersey through our intake and pumping station, located on state-owned land bordering the canal. Water is transported through two raw water pipelines for treatment and distribution at our CJO Water Treatment Plant in Edison, New Jersey.

The CJO Water Treatment Plant includes chemical storage and chemical feed equipment, two dual rapid mixing basins, four upflow clarifiers which are also called superpulsators, four underground reinforced chlorine contact tanks, twelve rapid filters containing gravel, sand and anthracite for water treatment and a steel washwater tank. The CJO Water Treatment Plant also includes a computerized Supervisory Control and Data Acquisitions system to monitor and control the CJO Water Treatment Plant and the water supply and distribution system in the Middlesex System. There is an on-site State certified laboratory capable of performing bacteriological, chemical, process control and advanced instrumental chemical sampling and analysis. The firm design capacity of the CJO Water Treatment Plant is 45 mgd (60 mgd maximum capacity). The five electric motor-driven, vertical turbine pumps presently installed have an aggregate capacity of 85 mgd.

In addition, there is a 15 mgd auxiliary pumping station located at the CJO Water Treatment Plant location. It has a dedicated substation and emergency power supply provided by a diesel-driven generator. It pumps from the 10 million gallon distribution storage reservoir directly into the distribution system.

The transmission and distribution system is comprised of 739 miles of mains and includes 23,200 feet of 48-inch reinforced concrete transmission main connecting the CJO Water Treatment Plant to our distribution pipe network and related storage facilities. Also included is a 58,600 foot transmission main and a 38,800 foot transmission main, augmented with a long-term, non-exclusive agreement with the East Brunswick system to transport water to several of our contract customers.

The Middlesex System's storage facilities consist of a 10 million gallon reservoir at the CJO Water Treatment Plant, 5 million gallon and 2 million gallon reservoirs in Edison (Grandview), a 5 million gallon reservoir in Carteret (Eborn) and a 2 million gallon reservoir at the Park Avenue Well Field.

In New Jersey, we own the properties on which the Middlesex System's 31 wells are located, the properties on which our storage tanks are located as well as the property where the CJO Water Treatment Plant is located. We also own our headquarters complex located at 1500 Ronson Road, Iselin, New Jersey, consisting of a 27,000 square foot office building and an adjacent 16,500 square foot maintenance facility.

Tidewater System

The Tidewater System is comprised of 86 production plants that vary in pumping capacity from 26,000 gallons per day to 2.0 mgd. Water is transported to our customers through 613 miles of transmission and distribution mains. Storage facilities include 46 tanks, with an aggregate capacity of 6.0 million gallons. Our Delaware operations are managed from Tidewater's offices in Dover, Delaware. The Delaware office property, located on eleven-acre lot owned by White Marsh, consists of two office buildings totaling approximately 17,000 square feet.

Pinelands System

Pinelands Water owns well site and storage properties in Southampton Township, New Jersey. The Pinelands Water storage facility is a 1.2 million gallon standpipe. Water is transported to our customers through 18 miles of transmission and distribution mains.

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Pinelands Wastewater System

Pinelands Wastewater owns a 12 acre site on which its 0.5 million gallons per day capacity tertiary treatment plant and connecting pipes are located. Its wastewater collection system is comprised of approximately 24 miles of sewer lines.

Bayview System

Bayview owns two well sites, which are located in Downe Township, Cumberland County, New Jersey. Water is transported to its customers through our 4.2 mile distribution system.

TESI System

The TESI System owns and operates six wastewater treatment systems in Southern Delaware. The treatment plants provide clarification, sedimentation, and disinfection. The combined total capacity of the plants is 0.6 mgd. TESI's wastewater collection system is comprised of approximately 30 miles of sewer lines.

Twin Lakes System

Twin Lakes owns two well sites, which are located in the Township of Shohola, Pike County, Pennsylvania. Water is transported to our customers through 3.7 miles of distribution mains.

USA-PA, USA and White Marsh

Our non-regulated subsidiaries, namely USA-PA, USA and White Marsh, do not own utility plant property.

Item 3. Legal Proceedings.

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.

Item 4. Removed and Reserved.

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PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

The Company's common stock is traded on the NASDAQ Stock Market, LLC, under the symbol MSEX. The following table shows the range of high and low share prices per share for the common stock and the dividend paid to shareholders in such quarter. As of December 31, 2010, there were 1,950 holders of record.

| | 2010 | High | Low | Dividend |
|----------------|------|----------|----------|-----------|
| Fourth Quarter | | \$ 19.31 | \$ 16.77 | \$ 0.1825 |
| Third Quarter | | \$ 17.16 | \$ 15.48 | \$ 0.1800 |
| Second Quarter | | \$ 18.70 | \$ 14.74 | \$ 0.1800 |
| First Quarter | | \$ 18.00 | \$ 16.16 | \$ 0.1800 |
| | 2009 | High | Low | Dividend |
| Fourth Quarter | | \$ 17.91 | \$ 14.74 | \$ 0.1800 |
| Third Quarter | | \$ 15.89 | \$ 13.62 | \$ 0.1775 |
| Second Quarter | | \$ 15.29 | \$ 12.61 | \$ 0.1775 |
| First Quarter | | \$ 17.71 | \$ 11.64 | \$ 0.1775 |

The Company has paid dividends on its common stock each year since 1912. Although it is the present intention of the Board of Directors of the Company to continue to pay regular quarterly cash dividends on its common stock, the payment of future dividends is contingent upon the future earnings of the Company, its financial condition and other factors deemed relevant by the Board of Directors at its discretion.

If four or more quarterly dividends are in arrears, the preferred shareholders, as a class, are entitled to elect two members to the Board of Directors in addition to Directors elected by holders of the common stock. In the event dividends on the preferred stock are in arrears, no dividends may be declared or paid on the common stock of the Company.

In June 2010, the Company sold and issued 1.9 million 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.

The Company periodically issues shares of common stock in connection with its Dividend Reinvestment and Common Stock Purchase Plan (the DRP). The Company raised approximately \$1.9 million through the issuance of 0.1 million shares under the Plan during 2010.

The Company has a stock compensation plan for its employees (the 2008 Restricted Stock Plan). The Company maintains an escrow account for 0.1 million awarded shares of the Company's common stock for the 2008 Restricted Stock Plan. 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 maximum number of shares authorized for grant under the 2008 Restricted Stock Plan is 0.3 million shares and 0.2 million shares remain available for future awards under the 2008 Restricted Stock Plan.

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The Company has a stock compensation plan for its outside directors (the Outside Director Stock Compensation Plan). In 2010, 1,416 shares of common stock were granted and issued to the Company's outside directors under the Outside Director Stock Compensation Plan. The maximum number of shares authorized for grant under the Outside Director Stock Compensation Plan is 0.1 million and 97,030 shares remain available for future grants under the Outside Director Stock Compensation Plan.

Set forth below is a line graph comparing the yearly change in the cumulative total return (which includes reinvestment of dividends) of a \$100 investment for the Company's common stock, a peer group of investor-owned water utilities, and the Dow Jones Wilshire 5000 Stock Index for the period of five years commencing December 31, 2005. The Dow Jones Wilshire 5000 Stock Index measures the performance of all U.S. headquartered equity securities with readily available price data.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Middlesex Water Company, The Dow Jones Wilshire 5000 Index and a Peer Group

*\$100 invested on 12/31/05 in stock or index-including reinvestment of dividends.

** Peer group includes American States Water Company, American Water Works, Inc., Aqua America Inc., Artesian Resources Corp., California Water Service Company, Connecticut Water Service, Inc., Pennichuck Corp., SJW Corp., York Water Company and Middlesex.

| | December 31, | | | | | |
|-------------------------|--------------|--------|--------|--------|--------|--------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Middlesex Water Company | 100.00 | 112.00 | 116.50 | 110.20 | 118.10 | 128.20 |
| Dow Jones Wilshire 5000 | 100.00 | 115.80 | 122.30 | 76.70 | 98.50 | 115.40 |
| Peer Group | 100.00 | 100.40 | 96.70 | 94.70 | 94.30 | 112.20 |

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Item 6. Selected Financial Data.

CONSOLIDATED SELECTED FINANCIAL DATA

(Thousands Except per Share Data)

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|-------------------------------------|------------|-----------|-----------|-----------|-----------|
| Operating Revenues | \$ 102,735 | \$ 91,243 | \$ 91,038 | \$ 86,114 | \$ 81,061 |
| Operating Expenses: | | | | | |
| Operations and Maintenance | 55,481 | 52,348 | 48,929 | 46,240 | 43,345 |
| Depreciation | 9,244 | 8,559 | 7,922 | 7,539 | 7,060 |
| Other Taxes | 11,413 | 10,175 | 10,168 | 9,664 | 9,338 |
| Total Operating Expenses | 76,138 | 71,082 | 67,019 | 63,443 | 59,743 |
| Operating Income | 26,597 | 20,161 | 24,019 | 22,671 | 21,318 |
| Other Income, Net | 1,444 | 1,726 | 1,302 | 1,527 | 774 |
| Interest Charges | 6,925 | 6,750 | 7,057 | 6,619 | 7,012 |
| Income Taxes | 6,786 | 5,160 | 6,056 | 5,736 | 5,041 |
| Net Income | 14,330 | 9,977 | 12,208 | 11,843 | 10,039 |
| Preferred Stock Dividend | 207 | 208 | 218 | 248 | 248 |
| Earnings Applicable to Common Stock | \$ 14,123 | \$ 9,769 | \$ 11,990 | \$ 11,595 | \$ 9,791 |
| Earnings per Share: | | | | | |
| Basic | \$0.96 | \$0.73 | \$0.90 | \$0.88 | \$0.83 |
| Diluted | \$0.96 | \$0.72 | \$0.89 | \$0.87 | \$0.82 |
| Average Shares Outstanding: | | | | | |
| Basic | 14,654 | 13,454 | 13,317 | 13,203 | 11,844 |
| Diluted | 14,916 | 13,716 | 13,615 | 13,534 | 12,175 |
| Dividends Declared and Paid | \$0.723 | \$0.713 | \$0.703 | \$0.693 | \$0.683 |
| Total Assets | \$489,185 | \$458,086 | \$440,000 | \$392,675 | \$370,267 |
| Convertible Preferred Stock | \$2,273 | \$2,273 | \$2,273 | \$2,856 | \$2,856 |
| Long-term Debt | \$133,844 | \$124,910 | \$118,217 | \$131,615 | \$130,706 |

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

The following discussion of the Company's historical results of operations and financial condition should be read in conjunction with the Company's consolidated financial statements and related notes.

Management's Overview

Operations

Middlesex Water Company 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 and distributing 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 rates charged to customers for water and wastewater services, as to the

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quality of water service we provide and as to certain other matters in New Jersey, Delaware and Pennsylvania. Only 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 60,000 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. In partnership with our subsidiary, USA-PA, we operate the water supply system and wastewater system for the City of Perth Amboy, New Jersey. Our Bayview subsidiary provides water services in Downe Township, New Jersey. Our other New Jersey subsidiaries, Pinelands Water and Pinelands Wastewater, provide water and wastewater services to residents in Southampton Township, New Jersey.

USA provides residential customers in New Jersey and Delaware a water service line and sewer lateral maintenance programs called LineCareSM and LineCare+SM, respectively.

Our Delaware subsidiaries, Tidewater and Southern Shores, provide water services to approximately 34,000 retail customers in New Castle, Kent and Sussex Counties, Delaware. Tidewater's subsidiary, White Marsh, services an additional 6,000 customers in Kent and Sussex Counties through various operations and maintenance contracts.

Our TESI subsidiary provides wastewater services to approximately 1,900 residential retail customers. We expect the growth of our regulated wastewater operations in Delaware will eventually become a more significant component of our operations.

Our Pennsylvania subsidiary, Twin Lakes, provides water services to approximately 120 retail customers in the Township of Shohola, Pike County, 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.

Strategy

Our strategy is focused on four key areas:

- Serve as a trusted and continually-improving provider of safe, reliable and cost-effective water, wastewater and related services;
- Provide a comprehensive suite of water and wastewater solutions in the continually-developing Delaware market that results in profitable growth;
 - Pursue profitable growth in our core states of New Jersey and Delaware, as well as additional states; and
 - Invest in products, services and other viable opportunities that complement our core competencies.

Rates

Middlesex - In January 2011, Middlesex filed an application with the NJBPU seeking permission to establish a PWAC and implement a tariff rate sufficient to recover increased costs of \$0.4 million to purchase untreated water from the New Jersey Water Supply Authority and treated water from a non-affiliated regulated water

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utility. We cannot predict whether the NJBPU will ultimately approve, deny, or reduce the amount of the request.

In March 2010, a settlement was reached with respect to Middlesex's application with the NJBPU seeking permission to increase its base water rates. The NJBPU granted 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%.

Tidewater – A 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. The following summarizes Tidewater's approved DSIC rates from January 1, 2010 through January 1, 2011:

| Date | January 1, 2010 | July 1, 2010 | January 1, 2011 |
|-----------------------|-----------------|--------------|-----------------|
| % Increase (Decrease) | 1.11% | (0.04)% | 0.27% |
| Cumulative % | 1.11% | 1.07% | 1.34% |

Outlook

Rate relief and favorable weather patterns bolstered our consolidated revenues in 2010. Even though revenues for 2011 should be favorably impacted by the full year effect of the March 2010 Middlesex rate increase, the Tidewater DSIC and the anticipated Middlesex PWAC, there can be no assurance that the higher level of customer water consumption experienced during the extended hot, dry period throughout our service territories in 2010 will continue in 2011. Severe winter weather in early 2011 has negatively impacted our operation and maintenance costs for main breaks and snow removal, particularly in New Jersey. These weather patterns may continue, which could further increase costs.

Ongoing economic conditions continue to negatively impact our customers' water consumption, particularly the level of water usage by our commercial and industrial customers in our Middlesex system. In the second half of 2010, we began to see an increase in usage by our commercial and industrial customers. However, we are unable to determine when these customers' water demands may fully return to previous levels, or if a reduced level of demand will continue indefinitely. We were given appropriate recognition of this decrease in demand in Middlesex's March 2010 rate increase.

As discussed above, revenues and earnings are influenced by weather. Changes in usage patterns, as well as increases in capital expenditures and operating costs, are the primary factors in determining the need for rate increase requests. We continue to implement plans to streamline operations and reduce operating costs.

Middlesex and several of its subsidiaries are expected to file for rate increases in 2011. There can be no assurances however, that the respective Utility Commissions will approve the anticipated rate increase requests in whole or in part. In addition, the timing of approval of these rate requests is presently not known.

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 PS&I costs that will not be currently recoverable in rates. If it is determined that recovery is unlikely, the applicable PS&I costs will be charged against income in the period of determination.

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The return on assets held in our retirement benefit plans during 2010 resulted in an increase in the amount available to fund current and future obligations. We expect this will help mitigate retirement plan benefit expenses and retirement plan cash contributions in 2011.

Operating Results by Segment

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 from prior years.

The Company has two operating segments, Regulated and Non-Regulated. Our Regulated segment contributed approximately 90%, 88% and 89% of total revenues, and approximately 92%, 87% and 90% of net income for the years ended December 31, 2010, 2009 and 2008, respectively. 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 are comprised 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 in 2010 Compared to 2009

| | (Millions of Dollars) | | | | | |
|----------------------------|-----------------------|---------------|---------|-----------|---------------|--------|
| | 2010 | | | 2009 | | |
| | Regulated | Non-Regulated | Total | Regulated | Non-Regulated | Total |
| Revenues | \$92.0 | \$ 10.7 | \$102.7 | \$80.6 | \$ 10.6 | \$91.2 |
| Operations and maintenance | 47.0 | 8.5 | 55.5 | 44.2 | 8.1 | 52.3 |
| Depreciation | 9.1 | 0.1 | 9.2 | 8.4 | 0.1 | 8.5 |
| Other taxes | 11.1 | 0.3 | 11.4 | 9.9 | 0.3 | 10.2 |
| Operating income | \$24.8 | \$ 1.8 | \$26.6 | \$18.1 | \$ 2.1 | \$20.2 |
| Other income, net | 1.1 | 0.3 | 1.4 | 1.4 | 0.3 | 1.7 |
| Interest expense | 6.8 | 0.1 | 6.9 | 6.5 | 0.2 | 6.7 |
| Income taxes | 6.0 | 0.8 | 6.8 | 4.3 | 0.9 | 5.2 |
| Net income | \$13.1 | \$ 1.2 | \$14.3 | \$8.7 | \$ 1.3 | \$10.0 |

Operating Revenues

Operating revenues for the year ended December 31, 2010 increased \$11.5 million from the same period in 2009. This increase was primarily related to the following factors:

- Revenues in our Middlesex System increased \$8.5 million, primarily as a result of the following:
 - o Contract Sales to Municipalities increased by \$2.6 million due to higher customer demand for water and the March 2010 rate increase;
 - o Sales to General Metered Service (GMS) Customers increased by \$4.0 million from the implementation of the March 2010 base water rate increase (\$3.2 million) and increased customer demand for water (\$0.8 million). The increased demand primarily resulted from hot, dry weather in the summer months and an increase in demand by our commercial and industrial customers in the 3rd and 4th quarters 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;

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- o Facilities Charges increased by \$2.0 million from the March 2010 rate increase; and
 - o All other revenue categories decreased \$0.1 million.
- Revenues in our Tidewater System increased \$2.7 million primarily from the following:
 - o Higher demand by our GMS customers (\$1.5 million);
 - o Increased base water rates that went into effect during 2009 (\$0.4 million);
- o A contract to temporarily provide water to Dover Air Force Base in Delaware (\$0.4 million);
- o New customer growth increased connection fees and facilities charges (\$0.5 million); and
 - o All other revenue categories decreased \$0.1 million.
- Additional services provided by White Marsh under non-regulated contracts increased revenues by \$0.2 million.
 - All other subsidiaries' revenues collectively increased \$0.1 million.

Operation and Maintenance Expense

Operation and maintenance expenses for the year ended December 31, 2010 increased \$3.2 million from the same period in 2009. This increase was primarily related to the following factors:

- Increased material and supply and outside contractor costs of \$0.8 million due to water main breaks in our Middlesex and Tidewater Systems;
- Increased purchased water costs of \$0.5 million in our Middlesex and Tidewater Systems, primarily from the aforementioned increased customer demand;
- Increased net costs of \$0.5 million from the implementation of a Company-wide information technology platform;
- Increased labor costs of \$0.9 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.
- Increased employee benefit costs of \$0.2 million primarily related to higher life insurance expenses resulting from market fluctuations in the cash surrender value of life insurance policies; and
 - All other operation and maintenance expense categories collectively increased \$0.3 million.

Depreciation

Depreciation expense for the year ended December 31, 2010 increased \$0.7 million from the same period in 2009 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the year ended December 31, 2010 increased \$1.2 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 year ended December 31, 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 \$0.2 million for certain costs related to potential projects at our Delaware subsidiaries; and
- All additional Other Income, net categories increased \$0.1 million.

Interest Charges

Interest charges for the year ended December 31, 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 year ended December 31, 2010 increased \$1.6 million from the same period in 2009, as a result of higher taxable income in 2010 as compared to 2009.

Net Income and Earnings Per Share

Favorable results for the year ended December 31, 2010 increased net income by \$4.3 million when compared to the same period in 2009. Basic and diluted earnings per share increased to \$0.96 for the year ended December 31, 2010 as compared to \$0.73 and \$0.72, respectively, for the year ended December 31, 2009. The increase in earnings per share for the year ended December 31, 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.

Results of Operations in 2009 Compared to 2008

| | (Millions of Dollars) | | | | | |
|----------------------------|-----------------------|---------------|--------|-----------|---------------|--------|
| | 2009 | | | 2008 | | |
| | Regulated | Non-Regulated | Total | Regulated | Non-Regulated | Total |
| Revenues | \$80.6 | \$ 10.6 | \$91.2 | \$81.1 | \$ 9.9 | \$91.0 |
| Operations and maintenance | 44.2 | 8.1 | 52.3 | 41.2 | 7.7 | 48.9 |
| Depreciation | 8.4 | 0.1 | 8.5 | 7.8 | 0.1 | 7.9 |
| Other taxes | 9.9 | 0.3 | 10.2 | 10.0 | 0.2 | 10.2 |
| Operating income | \$18.1 | \$ 2.1 | \$20.2 | \$22.1 | \$ 1.9 | \$ |