

MIDDLESEX WATER CO  
Form 10-Q  
August 07, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2007**

OR

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

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

Commission File Number 0-422

**MIDDLESEX WATER COMPANY**

(Exact name of registrant as specified in its charter)

**New Jersey**  
(State of incorporation)

**22-1114430**  
(IRS employer identification no.)

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

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

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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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 August 1, 2007: Common Stock, No Par Value: 13,203,379 shares outstanding.

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**MIDDLESEX WATER COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(In thousands except per share amounts)

	Three Months Ended June		Six Months Ended June	
	2007	30, 2006	2007	30, 2006
Operating Revenues	\$ 21,745	\$ 21,037	\$ 40,732	\$ 39,267
Operating Expenses:				
Operations	10,143	10,012	20,335	19,658
Maintenance	1,037	794	2,015	1,533
Depreciation	1,875	1,713	3,720	3,381
Other Taxes	2,411	2,369	4,662	4,573
Total Operating Expenses	15,466	14,888	30,732	29,145
Operating Income	6,279	6,149	10,000	10,122
Other Income:				
Allowance for Funds Used During Construction	140	115	252	228
Other Income	282	41	508	99
Other Expense	(8)	(13)	(12)	(14)
Total Other Income, net	414	143	748	313
Interest Charges	1,698	1,808	3,081	3,323
Income before Income Taxes	4,995	4,484	7,667	7,112
Income Taxes	1,682	1,517	2,583	2,332
Net Income	3,313	2,967	5,084	4,780
Preferred Stock Dividend Requirements	62	62	124	124
Earnings Applicable to Common Stock	\$ 3,251	\$ 2,905	\$ 4,960	\$ 4,656
Earnings per share of Common Stock:				
Basic	\$ 0.25	\$ 0.25	\$ 0.38	\$ 0.40
Diluted	\$ 0.24	\$ 0.25	\$ 0.37	\$ 0.40
Average Number of Common Shares Outstanding :				
Basic	13,191	11,611	13,184	11,602
Diluted	13,522	11,942	13,515	11,933

Cash Dividends Paid per Common Share	\$ 0.1725	\$ 0.1700	\$ 0.3450	\$ 0.3400
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See Notes to Condensed Consolidated Financial Statements.

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

ASSETS		June 30, 2007	December 31, 2006
<b>UTILITY PLANT:</b>	Water Production	\$ 97,588	\$ 95,324
	Transmission and Distribution	250,753	243,959
	General	24,627	25,153
	Construction Work in Progress	8,216	6,131
	<b>TOTAL</b>	<b>381,184</b>	<b>370,567</b>
	Less Accumulated Depreciation	62,199	59,694
	<b>UTILITY PLANT - NET</b>	<b>318,985</b>	<b>310,873</b>
<b>CURRENT ASSETS:</b>	Cash and Cash Equivalents	2,519	5,826
	Accounts Receivable, net	10,470	8,538
	Unbilled Revenues	5,559	4,013
	Materials and Supplies (at average cost)	1,445	1,306
	Prepayments	1,636	1,229
	<b>TOTAL CURRENT ASSETS</b>	<b>21,629</b>	<b>20,912</b>
<b>DEFERRED CHARGES</b>	Unamortized Debt Expense	2,954	3,014
<b>AND OTHER ASSETS:</b>	Preliminary Survey and Investigation Charges	5,026	3,436
	Regulatory Assets	20,387	18,342
	Restricted Cash	6,227	6,850
	Non-utility Assets - Net	6,656	6,255
	Other	410	585
	<b>TOTAL DEFERRED CHARGES AND OTHER ASSETS</b>	<b>41,660</b>	<b>38,482</b>
	<b>TOTAL ASSETS</b>	<b>\$ 382,274</b>	<b>\$ 370,267</b>
<b>CAPITALIZATION AND LIABILITIES</b>			
<b>CAPITALIZATION:</b>	Common Stock, No Par Value	\$ 104,953	\$ 104,248
	Retained Earnings	25,399	25,001
	Accumulated Other Comprehensive Income, net of tax	80	94
	<b>TOTAL COMMON EQUITY</b>	<b>130,432</b>	<b>129,343</b>
	Preferred Stock	3,958	3,958
	Long-term Debt	130,073	130,706
	<b>TOTAL CAPITALIZATION</b>	<b>264,463</b>	<b>264,007</b>
<b>CURRENT LIABILITIES:</b>	Current Portion of Long-term Debt	2,556	2,501
	Notes Payable	800	-
	Accounts Payable	7,502	5,491
	Accrued Taxes	7,988	6,684
	Accrued Interest	1,912	1,880

	Unearned Revenues and Advanced Service Fees	<b>707</b>	601
	Other	<b>1,183</b>	984
	<b>TOTAL CURRENT LIABILITIES</b>	<b>22,648</b>	18,141

**COMMITMENTS AND CONTINGENT LIABILITIES (Note  
7)**

<b>DEFERRED CREDITS</b>	Customer Advances for Construction	<b>20,501</b>	19,246
<b>AND OTHER LIABILITIES:</b>	Accumulated Deferred Investment Tax Credits	<b>1,774</b>	1,813
	Accumulated Deferred Income Taxes	<b>18,053</b>	15,779
	Employee Benefit Plans	<b>17,688</b>	16,388
	Regulatory Liability - Cost of Utility Plant Removal	<b>6,501</b>	6,200
	Other	<b>514</b>	527
	<b>TOTAL DEFERRED CREDITS AND OTHER LIABILITIES</b>	<b>65,031</b>	59,953

**CONTRIBUTIONS IN AID  
OF CONSTRUCTION**

	<b>30,132</b>	28,166
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 382,274</b>	\$ 370,267

See Notes to Condensed Consolidated Financial Statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 5,084	\$ 4,780
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	4,029	3,762
Provision for Deferred Income Taxes and ITC	235	(98)
Equity Portion of AFUDC	(121)	(105)
Cash Surrender Value of Life Insurance	(205)	(104)
Gain on Sale of Real Estate	(212)	-
Changes in Assets and Liabilities:		
Accounts Receivable	(1,555)	431
Unbilled Revenues	(1,546)	(1,196)
Materials & Supplies	(139)	(195)
Prepayments	(407)	(795)
Other Assets	(194)	(295)
Accounts Payable	2,011	(1,056)
Accrued Taxes	1,312	1,361
Accrued Interest	32	28
Employee Benefit Plans	1,300	920
Unearned Revenue & Advanced Service Fees	106	19
Other Liabilities	186	(73)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>9,916</b>	<b>7,384</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Utility Plant Expenditures, Including AFUDC of \$131 in 2007 and \$123 in 2006	(8,774)	(12,019)
Restricted Cash	647	98
Proceeds from Real Estate Dispositions	273	-
Preliminary Survey & Investigation Charges	(1,590)	(754)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(9,444)</b>	<b>(12,675)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Redemption of Long-term Debt	(711)	(555)
Proceeds from Issuance of Long-term Debt	133	1
Net Short-term Bank Borrowings	800	8,600
Deferred Debt Issuance Expenses	(30)	-
Common Stock Issuance Expense	(15)	-
Restricted Cash	(23)	(11)
Proceeds from Issuance of Common Stock	705	767
Payment of Common Dividends	(4,547)	(3,943)
Payment of Preferred Dividends	(124)	(124)
Construction Advances and Contributions-Net	33	(126)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(3,779)</b>	<b>4,609</b>



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NET CHANGES IN CASH AND CASH EQUIVALENTS	(3,307)	(682)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,826	2,984
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,519	\$ 2,302

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:

Utility Plant received as Construction Advances and Contributions	\$ 2,811	\$ 2,095
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SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

Cash Paid During the Year for:

Interest	\$ 3,098	\$ 3,319
Interest Capitalized	\$ (131)	\$ (123)
Income Taxes	\$ 1,518	\$ 2,040

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)

	June 30, 2007	December 31, 2006
Common Stock, No Par Value		
Shares Authorized -	40,000	
Shares Outstanding - 2007 - 13,200	\$ 104,953	\$ 104,248
2006 - 13,168		
Retained Earnings		
	25,399	25,001
Accumulated Other Comprehensive Income, net of tax	80	94
	\$ 130,432	\$ 129,343
Cumulative Preference Stock, No Par Value:		
Shares Authorized -	100	
Shares Outstanding - None		
Cumulative Preferred Stock, No Par Value		
Shares Authorized -	139	
Shares Outstanding -	37	
Convertible:		
Shares Outstanding, \$7.00 Series - 14	1,457	1,457
Shares Outstanding, \$8.00 Series - 12	1,399	1,399
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1	102	102
Shares Outstanding, \$4.75 Series - 10	1,000	1,000
<b>TOTAL PREFERRED STOCK</b>	<b>\$ 3,958</b>	<b>\$ 3,958</b>
Long-term Debt		
8.05%, Amortizing Secured Note, due December 20, 2021	\$ 2,849	\$ 2,896
6.25%, Amortizing Secured Note, due May 22, 2028	8,785	8,995
6.44%, Amortizing Secured Note, due August 25, 2030	6,487	6,627
6.46%, Amortizing Secured Note, due September 19, 2031	6,766	6,907
4.22%, State Revolving Trust Note, due December 31, 2022	707	739
3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025	3,168	3,100
3.49%, State Revolving Trust Note, due January 25, 2027	603	598
4.03%, State Revolving Trust Note, due December 1, 2026	974	914
4.00% to 5.00%, State Revolving Trust Bond, due September 1, 2021	730	730
0.00%, State Revolving Fund Bond, due September 1, 2021	567	577
First Mortgage Bonds:		
5.20%, Series S, due October 1, 2022	12,000	12,000
5.25%, Series T, due October 1, 2023	6,500	6,500
6.40%, Series U, due February 1, 2009	15,000	15,000
5.25%, Series V, due February 1, 2029	10,000	10,000
5.35%, Series W, due February 1, 2038	23,000	23,000
0.00%, Series X, due September 1, 2018	636	647
4.25% to 4.63%, Series Y, due September 1, 2018	820	820

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0.00%, Series Z, due September 1, 2019	<b>1,428</b>	1,455
5.25% to 5.75%, Series AA, due September 1, 2019	<b>1,890</b>	1,890
0.00%, Series BB, due September 1, 2021	<b>1,774</b>	1,805
4.00% to 5.00%, Series CC, due September 1, 2021	<b>2,090</b>	2,090
5.10%, Series DD, due January 1, 2032	<b>6,000</b>	6,000
0.00%, Series EE, due September 1, 2024	<b>7,420</b>	7,482
3.00% to 5.50%, Series FF, due September 1, 2024	<b>8,735</b>	8,735
0.00%, Series GG, due September 1, 2026	<b>1,750</b>	1,750
4.00% to 5.00%, Series HH, due September 1, 2026	<b>1,950</b>	1,950
SUBTOTAL LONG-TERM DEBT	<b>132,629</b>	133,207
Less: Current Portion of Long-term Debt	<b>(2,556)</b>	(2,501)
TOTAL LONG-TERM DEBT	<b>\$ 130,073</b>	\$ 130,706

See Notes to Condensed Consolidated Financial Statements.

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**MIDDLESEX WATER COMPANY**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 – Summary of Significant Accounting Policies**

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

The consolidated notes within the 2006 Form 10-K are applicable to these financial statements and, in the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (including normal recurring accruals) to present fairly the financial position as of June 30, 2007, the results of operations for the three and six month periods ended June 30, 2007 and 2006, and cash flows for the six month periods ended June 30, 2007 and 2006. Information included in the Balance Sheet as of December 31, 2006, has been derived from the Company's audited financial statements for the year ended December 31, 2006.

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

**Recent Accounting Pronouncements**– In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48) “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109”, to clarify certain aspects of accounting for uncertain tax positions, including recognition and measurement of those tax positions. This interpretation was effective for fiscal years beginning after December 15, 2006 (January 1, 2007 for the Company). The adoption of this interpretation had no impact on the Company's financial position, results of operations, or cash flows.

In September 2006, the FASB's Emerging Issues Task Force reached a consensus on EITF Issue No. 06-5, “Accounting for Purchases of Life Insurance – Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance” (“EITF 06-5”). EITF 06-5 provides clarification for determining the amounts that could be realized by policyholders in accounting for life insurance contracts. EITF 06-5 is effective for fiscal years beginning after December 15, 2006 (January 1, 2007 for the Company). Adoption of EITF 06-5 had no material impact on the Company's consolidated financial statements.

**Note 2 – Rate Matters**

Middlesex filed for an \$8.9 million or 16.5% base rate increase with the New Jersey Board of Public Utilities (BPU) on April 18, 2007. The requested increase is intended to recover increased costs of operations,

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maintenance, labor and benefits, purchased power, purchased water and taxes, as well as capital investment of approximately \$23.0 million since June 2005. We cannot predict whether the BPU will ultimately approve, deny, or reduce the amount of our request. We do not expect a decision on this matter until the first quarter of 2008.

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2007. The increase cannot exceed the lesser of the regional Consumer Price Index or 3%. The contracted rate schedule is set to expire on December 31, 2007. The Company is in the process of renegotiating the rate schedule.

**Note 3 – Capitalization**

**Common Stock**—During the six months ended June 30, 2007, there were 31,680, common shares (approximately \$0.6 million) issued under the Company’s Dividend Reinvestment and Common Stock Purchase Plan (DRP). Middlesex received approval from the BPU in June 2007 to increase the number of shares authorized under the DRP from 1.7 million to 2.3 million shares.

In May 2007, the Company received shareholders approval to increase the number of authorized shares of common stock from 20 million shares to 40 million shares.

**Long-term Debt**— Middlesex received approval from the BPU to issue up to \$4.0 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust under the New Jersey State Revolving Fund (SRF) program. The Company expects to complete the transaction in November 2007. Proceeds from this financing will be used for the ongoing main cleaning and lining project in 2008.

**Note 4 – Earnings Per Share**

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

	(In Thousands Except per Share Amounts)			
	Three Months Ended June 30,			
<b>Basic:</b>	2007	Shares	2006	Shares
Net Income	\$ 3,313	13,191	\$ 2,967	11,611
Preferred Dividend	(62)		(62)	
Earnings Applicable to Common Stock	\$ 3,251	13,191	\$ 2,905	11,611
<b>Basic EPS</b>	<b>\$ 0.25</b>		<b>\$ 0.25</b>	
<b>Diluted:</b>				
Earnings Applicable to Common Stock	\$ 3,251	13,191	\$ 2,905	11,611
\$7.00 Series Preferred Dividend	24	167	24	167
\$8.00 Series Preferred Dividend	24	164	24	164
Adjusted Earnings Applicable to Common Stock	\$ 3,299	13,522	\$ 2,953	11,942
<b>Diluted EPS</b>	<b>\$ 0.24</b>		<b>\$ 0.25</b>	



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<b>Basic:</b>	Six Months Ended June 30,			
	2007	Shares	2006	Shares
Net Income	\$ 5,084	13,184	\$ 4,780	11,602
Preferred Dividend	(124)		(124)	
Earnings Applicable to Common Stock	\$ 4,960	13,184	\$ 4,656	11,602
<b>Basic EPS</b>	\$ 0.38		\$ 0.40	
<b>Diluted:</b>				
Earnings Applicable to Common Stock	\$ 4,960	13,184	\$ 4,656	11,602
\$7.00 Series Preferred Dividend	49	167	49	167
\$8.00 Series Preferred Dividend	48	164	48	164
Adjusted Earnings Applicable to Common Stock	\$ 5,057	13,515	\$ 4,753	11,933
<b>Diluted EPS</b>	\$ 0.37		\$ 0.40	

**Note 5 – Business Segment Data**

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

Operations by Segments:	(In Thousands)			
	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2007	2006	2007	2006
<b>Revenues:</b>				
Regulated	\$ 19,776	\$ 18,663	\$ 36,462	\$ 34,663
Non – Regulated	2,081	2,404	4,427	4,664
Inter-segment Elimination	(112)	(30)	(157)	(60)
Consolidated Revenues	\$ 21,745	\$ 21,037	\$ 40,732	\$ 39,267
<b>Operating Income:</b>				
Regulated	\$ 5,951	\$ 5,746	\$ 9,416	\$ 9,449
Non – Regulated	328	403	584	673
Consolidated Operating Income	\$ 6,279	\$ 6,149	\$ 10,000	\$ 10,122
<b>Net Income:</b>				
Regulated	\$ 3,140	\$ 2,740	\$ 4,777	\$ 4,407
Non – Regulated	173	227	307	373
Consolidated Net Income	\$ 3,313	\$ 2,967	\$ 5,084	\$ 4,780





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Capital Expenditures:				
Regulated	\$ 5,024	\$ 7,209	\$ 8,549	\$ 11,801
Non – Regulated	130	200	225	218
Total Capital Expenditures	\$ 5,154	\$ 7,409	\$ 8,774	\$ 12,019

	As of	As of		
	June 30,	December 31,		
	<u>2007</u>	<u>2006</u>		
Assets:				
Regulated	\$ 377,728	\$ 366,149		
Non – Regulated	7,540	6,808		
Inter-segment Elimination	(2,994)	(2,690)		
Consolidated Assets	\$ 382,274	\$ 370,267		

**Note 6 – Short-term Borrowings**

As of June 30, 2007, the Company has established lines of credit aggregating \$40.0 million. At June 30, 2007, the outstanding borrowings under these credit lines were \$0.8 million at a weighted average interest rate of 6.62%.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were \$0.2 million and \$9.2 million at 6.62% and 5.91% for the three months ended June 30, 2007 and 2006, respectively. The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were \$0.1 million and \$7.6 million at 6.62% and 5.82% for the six months ended June 30, 2007 and 2006, respectively.

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

**Note 7 – Commitments and Contingent Liabilities**

Guarantees - USA-PA operates the City of Perth Amboy, New Jersey (Perth Amboy) water and wastewater systems under contract through June 30, 2018. The agreement was effected under New Jersey's Water Supply Public/Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act. Under the agreement, USA-PA receives a fixed fee and in addition, a variable fee based on increased system billing. Scheduled fixed fee payments for 2007 are \$7.8 million. The fixed fees will increase over the term of the contract to \$10.2 million per year.

In connection with the agreement, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately \$68.0 million in three series of bonds. Middlesex guaranteed one of those series of bonds, designated the Series C Serial Bonds, in the principal amount of approximately \$26.3 million. Perth Amboy guaranteed the two other series of bonds. The Series C Serial Bonds have various maturity dates with the final maturity date on September 1, 2015. As of June 30, 2007, approximately \$23.4 million of the Series C Serial Bonds remained outstanding.

Middlesex is obligated to perform under the guarantee in the event notice is received from the Series C Serial Bonds trustee of an impending debt service deficiency. If Middlesex funds any debt service obligations as



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guarantor, Perth Amboy is required to reimburse the Company. There are other provisions in the agreement that make it unlikely that we would be required to perform under the guarantee, such as scheduled annual rate increases for water and wastewater services as well as rate increases that may be implemented at anytime by Perth Amboy. In the event revenues from customers could not satisfy the reimbursement requirements, Perth Amboy has Ad Valorem taxing powers, which could be used to raise the needed amount.

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

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

Purchased water costs are shown below:

	(In Thousands)			
	Three Months Ended June 30, 2007		Six Months Ended June 30, 2007	
Purchased Water				
Treated	\$ 539	\$ 473	\$ 999	\$ 935
Untreated	529	492	1,128	1,059
Total Costs	\$ 1,068	\$ 965	\$ 2,127	\$ 1,994

Construction – The Company expects to spend approximately \$32.1 million on its construction program in 2007.

Litigation – In July 2005, Tidewater received a notice of violation and request for corrective action issued by the Delaware State Fire Marshal regarding the alleged failure of one of the community water systems operated by Tidewater to meet Delaware fire protection requirements. Tidewater appealed the Fire Marshal’s decision with the Delaware State Fire Prevention Commission (the “SFPC”) and, in November 2005, the SFPC denied Tidewater’s appeal. In December 2005, Tidewater filed an appeal of the SFPC’s decision with the Sussex County Superior Court in Delaware, which is still pending. There are approximately 67 of our other systems that may not meet the Delaware Fire Marshal’s recent interpretation of the fire protection requirements. If the Delaware Fire Marshal’s interpretation of the regulations is upheld upon appeal, we may be required to make corrections to the system at issue and the Delaware Fire Marshal could issue notices of violation and requests for corrective action for some or all of the approximately 67 other community systems. At this time, we cannot predict how many community water systems would ultimately require corrective action if our appeal is unsuccessful nor can we predict the timing and the cost of any required corrective actions. We will apply to the PSC to increase base rates to recover the costs of any such corrective actions. However, if corrective actions need to be taken at several community water systems, our costs could be significant, and to the extent the PSC does not approve rate increases to offset these costs, or if there is a significant delay in receiving approval for such rate increases, such costs could have a material adverse effect on our operating results.

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The Court action is currently on hold while the parties, with the assistance of a mediator, have met in an attempt to resolve as many open issues as possible. If any significant issues remain open after these discussions, they will be referred back to the Court for ultimate decision.

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 Retirement Benefit Plans**

**Pension** – The Company has a noncontributory defined benefit pension plan, which covers all employees with more than 1,000 hours of service. The Company contributed \$1.5 million of cash to the plan on August 3, 2007. The Company also maintains an unfunded supplemental retirement benefit plan for certain active and retired company officers and currently pays \$0.3 million in annual benefits to the retired participants.

**Postretirement Benefits Other Than Pensions**– The Company maintains a postretirement benefit plan other than pensions for substantially all of its retired employees. Coverage includes healthcare and life insurance. Retiree contributions are dependent on credited years of service. The Company expects to make cash contributions to the plan of approximately \$1.6 million beginning in the third quarter of 2007.

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

	(In Thousands)			
	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	Three Months Ended June 30,			
	2007	2006	2007	2006
Service Cost	\$ 320	\$ 334	\$ 205	\$ 189
Interest Cost	453	425	224	201
Expected Return on Assets	(456)	(402)	(120)	(83)
Amortization of Unrecognized Losses	66	62	84	111
Amortization of Unrecognized Prior Service Cost	-	3	-	-
Amortization of Transition Obligation	2	-	34	34
Net Periodic Benefit Cost	\$ 385	\$ 422	\$ 427	\$ 452

	(In Thousands)			
	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	Six Months Ended June 30,			
	2007	2006	2007	2006
Service Cost	\$ 639	\$ 644	\$ 411	\$ 366
Interest Cost	907	855	448	419
Expected Return on Assets	(913)	(816)	(241)	(174)
Amortization of Unrecognized Losses	131	119	169	240



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Amortization of Unrecognized Prior Service Cost	-	3	-	-
Amortization of Transition Obligation	5	-	68	68
Net Periodic Benefit Cost	\$ 769	\$ 805	\$ 855	\$ 919

**Note 9 – Stock Based Compensation**

The Company maintains a Restricted Stock Plan, under which 63,837 shares of the Company's common stock are held in escrow by the Company as of June 30, 2007 for key employees. Such stock is subject to 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 this plan is 240,000 shares. There were no grants, vesting or forfeitures of restricted stock during the six months ended June 30, 2007.

The Company recognizes compensation expense at fair value for its restricted stock awards in accordance with SFAS 123(R), "Share Based Payment". Compensation expense is determined by the market value of the stock on the date of the award and is being amortized over a five-year period. Compensation expense for the three and six months ended June 30, 2007 and 2006 was \$0.1 million. Total unearned compensation related to restricted stock was \$0.7 million at June 30, 2007.

**Note 10 – Other Comprehensive Income**

Comprehensive income was as follows:

	(In Thousands)			
	Three Months Ended June 30, 2007		Six Months Ended June 30, 2006	
Net Income	\$ 3,313	\$ 2,967	\$ 5,084	\$ 4,780
Other Comprehensive Income:				
Change in Value of Equity Investments, Net of Income Tax	(23)	---	(14)	---
Other Comprehensive Income	(23)	---	(14)	---
Comprehensive Income	\$ 3,290	\$ 2,967	\$ 5,070	\$ 4,780

**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, 2006.

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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. The Company intends that these statements be covered by the safe harbors created under those laws. These statements include, but are not limited to:

- statements as to expected financial condition, performance, prospects and earnings of the Company;
  - statements regarding strategic plans for growth;
- statements regarding the amount and timing of rate increases and other regulatory matters;
  - statements regarding expectations and events concerning capital expenditures;
- statements as to the Company’s expected liquidity needs during fiscal 2007 and beyond and statements as to the sources and availability of funds to meet its liquidity needs;
- statements as to expected rates, consumption volumes, service fees, revenues, margins, expenses and operating results;
- statements as to the Company’s compliance with environmental laws and regulations and estimations of the materiality of any related costs;
  - statements as to the safety and reliability of the Company’s equipment, facilities and operations;
    - statements as to financial projections;
  - statements as to the ability of the Company to pay dividends;
- statements as to the Company’s plans to renew municipal franchises and consents in the territories it serves;
- expectations as to the amount of cash contributions to fund the Company’s retirement benefit plans, including statements as to anticipated discount rates and rates of return on plan assets;
  - statements as to trends; and
- statements regarding the availability and quality of our water supply.

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

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

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





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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, 2006.

**Overview**

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

Our New Jersey water utility system (the Middlesex System) provides water services to approximately 59,300 retail, commercial and fire service customers, primarily in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey with a total population of approximately 303,000. Through our subsidiary, USA-PA, we operate the water supply system and wastewater collection system for the City of Perth Amboy, New Jersey. Pinelands Water and Pinelands Wastewater provide water and wastewater services to residents in Southampton Township, New Jersey.

Tidewater and Southern Shores provide water services to approximately 31,000 retail customers in New Castle, Kent, and Sussex Counties, Delaware. Our TESI subsidiary provides regulated wastewater service to approximately 190 residential retail customers. White Marsh serves approximately 5,400 customers under unregulated operating contracts with various owners of small water and wastewater systems in Kent and Sussex Counties.

USA provides customers both inside and outside of our service territories a service line maintenance program called LineCare<sup>SM</sup>. In the first quarter of 2007 we introduced a similar program for wastewater customers called LineCare+<sup>SM</sup>.

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

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

**Recent Developments**

*Rate Increases*

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Middlesex filed for an \$8.9 million, or 16.5% base rate increase with the New Jersey Board of Public Utilities (BPU) on April 18, 2007. The requested increase is intended to recover increased costs of operations, maintenance, labor and benefits, purchased power, purchased water and taxes, as well as capital investment of approximately \$23.0 million since rates were last established in 2005. We cannot predict whether the BPU will ultimately approve, deny, or reduce the amount of our request. We do not expect a decision on this matter until the first quarter of 2008.

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2007. The increase cannot exceed the lesser of the regional Consumer Price Index or 3%. The contracted rate schedule is set to expire on December 31, 2007. The Company is in the process of renegotiating the rate schedule.

**Operating Results by Segment**

The Company has two operating segments, Regulated and Non-Regulated. Our Regulated segment contributed 91% of total revenues and 95% of net income for the six months ended June 30, 2007 and 88% of total revenues and 92% of net income for the six months ended June 30, 2006. The discussion of the Company's results of operations is on a consolidated basis, and includes significant factors by subsidiary. The segments in the tables included below consist of the following companies: Regulated-Middlesex, Tidewater, Pinelands, Southern Shores, and TESI; Non-Regulated-USA, USA-PA, and White Marsh.

**Results of Operations – Three Months Ended June 30, 2007**

	(In Thousands)					
	<u>Three Months Ended June 30,</u>					
	<u>2007</u>			<u>2006</u>		
	<u>Regulated</u>	<u>Non-Regulated</u>	<u>Total</u>	<u>Regulated</u>	<u>Non-Regulated</u>	<u>Total</u>
Revenues	\$ 19,776	\$ 1,969	\$ 21,745	\$ 18,663	\$ 2,374	\$ 21,037
Operations and maintenance expenses	9,631	1,549	11,180	8,921	1,885	10,806
Depreciation expense	1,842	33	1,875	1,683	30	1,713
Other taxes	2,352	59	2,411	2,313	56	2,369
<b>Operating income</b>	<b>5,951</b>	<b>328</b>	<b>6,279</b>	<b>5,746</b>	<b>403</b>	<b>6,149</b>
Other income	414	---	414	143	---	143
Interest expense	1,672	26	1,698	1,784	24	1,808
Income taxes	1,553	129	1,682	1,365	152	1,517
<b>Net income</b>	<b>\$ 3,140</b>	<b>\$ 173</b>	<b>\$ 3,313</b>	<b>\$ 2,740</b>	<b>\$ 227</b>	<b>\$ 2,967</b>

Operating revenues for the three months ended June 30, 2007 increased \$0.7 million, or 3.4%, from the same period in 2006 due to customer growth and rate relief in our Delaware service territories. The implementation of a 15% interim rate increase in June 2006 and the additional 12% final increase on February 28, 2007 provided an additional \$1.0 million of revenues. Customer growth and higher consumption contributed \$0.3 million of revenues. Fees charged to new customers for initial connection to our Delaware water systems were lower by \$0.4 million as new residential and commercial development has slowed in our Delaware service territories. Consumption revenues in our Middlesex system were lower by \$0.1 million. USA-PA's fees for managing the Perth Amboy water and wastewater systems were \$0.3 million lower than the same period in 2006 due to lower



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pass-through charges. There was an equal and offsetting amount of lower expenses connected with this management contract.

While we anticipate continued organic customer and consumption growth, particularly in our Delaware systems, such growth and increased consumption cannot be guaranteed. Revenues from our water systems are highly dependent on the effects of weather, which may adversely impact future consumption despite customer growth. Customer growth in both the regulated water and wastewater businesses are dependent upon economic conditions surrounding new housing as well as developer construction timetables. Since early 2007, we have experienced a slow down in the rate of customer growth in Delaware. Appreciable organic customer and consumption growth is less likely in our New Jersey systems due to the extent to which our service territory is developed.

Operation and maintenance expenses increased \$0.4 million or 3.5%. Labor costs were \$0.2 million higher due wage increases and increased headcount to meet the needs of the growing Delaware customer base. Water production costs were \$0.2 million higher due to increased sales in Delaware and higher unit costs for water, electric power and treatment costs in New Jersey.

Depreciation expense increased \$0.2 million, or 9.5%, primarily as a result of a higher level of utility plant in service since June 30, 2006. The \$0.2 million increase in other income resulted from the sale of non-utility property. Interest expense decreased by \$0.1 million commensurate with lower short-term borrowings compared to the prior year period.

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

Net income increased by 11.7% from \$3.0 million to \$3.3 million. However, due to a higher number of shares outstanding, basic earnings per share were \$0.25 for the three months ended June 30, 2007 compared to \$0.25 for the same period in 2006. Diluted earnings per share were \$0.24 and \$0.25 for three months ended June 30, 2007 and 2006. Middlesex sold and issued 1.5 million shares of its common stock in November 2006.

**Results of Operations – Six Months Ended June 30, 2007**

	(In Thousands)					
	<u>Six Months Ended June 30,</u>					
	<u>2007</u>			<u>2006</u>		
	<u>Regulated</u>	<u>Non-Regulated</u>	<u>Total</u>	<u>Regulated</u>	<u>Non-Regulated</u>	<u>Total</u>
Revenues	\$ 36,462	\$ 4,270	\$ 40,732	\$ 34,663	\$ 4,604	\$ 39,267
Operations and maintenance expenses	18,846	3,504	22,350	17,432	3,759	21,191
Depreciation expense	3,656	64	3,720	3,324	57	3,381
Other taxes	4,544	118	4,662	4,458	115	4,573
<b>Operating income</b>	<b>9,416</b>	<b>584</b>	<b>10,000</b>	<b>9,449</b>	<b>673</b>	<b>10,122</b>
Other income	748	---	748	313	---	313
Interest expense	3,030	51	3,081	3,273	50	3,323
Income taxes	2,357	226	2,583	2,082	250	2,332
<b>Net income</b>	<b>\$ 4,777</b>	<b>\$ 307</b>	<b>\$ 5,084</b>	<b>\$ 4,407</b>	<b>\$ 373</b>	<b>\$ 4,780</b>

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Operating revenues for the six months ended June 30, 2007 increased \$1.5 million, or 3.7%, from the same period in 2006. Water sales improved by \$1.8 million in our Delaware water systems, of which \$1.6 million was a result of a base rate increase that was granted to Tidewater. The rate increase was implemented in two parts; a 15% interim rate increase in June 2006 and an additional 12% final increase on February 28, 2007. Customer growth and higher consumption contributed \$0.6 million of revenues. Fees charged to new customers for initial connection to our Delaware water systems were down \$0.4 million for the reasons described above. Consumption revenues in our Middlesex system were lower by \$0.2 million. USA-PA's fees for managing the Perth Amboy water and wastewater systems were \$0.2 million lower than the same period in 2006 due mostly to lower pass-through charges. There was an equal and offsetting amount of lower expenses connected with this management contract. All other operations accounted for \$0.1 million of additional revenues.

Operation and maintenance expenses increased \$1.2 million, or 5.5%. Labor and benefit costs were \$0.7 million higher due to wage increases and increased headcount to meet the needs of the growing Delaware customer base. Pumping and water treatment costs increased a combined \$0.3 million due to higher costs for electricity, chemicals and disposal of residuals. All other operating costs increased by \$0.2 million.

Depreciation expense increased \$0.3 million, or 10.0%, due to the higher level of utility plant in service, as discussed for the three-month results. The \$0.4 million increase in other income resulted from the sale of non-utility property and higher earnings on our short-term investments. Interest expense decreased by \$0.2 million commensurate with lower short-term borrowings compared to the prior year period.

Income taxes increased by \$0.3 million as a result of increased operating income as compared to the prior year.

Net income increased by \$0.3 million, or 6.4%. However, due to a higher number of shares outstanding, basic earnings per share were \$0.38 for the six months ended June 30, 2007 compared to \$0.40 for the same period in 2006. Diluted earnings per share were \$0.37 and \$0.40 for six months ended June 30, 2007 and 2006. Middlesex sold and issued 1.5 million shares of its common stock in November 2006.

### **Liquidity and Capital Resources**

Cash flows from operations are largely dependent on three factors: the impact of weather on water sales, adequate and timely rate increases, and customer growth. The effect of those factors on net income is discussed in results of operations. For the six months ended June 30, 2007, cash flows from operating activities were \$9.9 million, an increase of \$2.5 million from the prior year. This increase was attributable to increased earnings, and the timing of payments to vendors. These higher cash flows were partially offset by an increase in the level of customer receivables. The \$9.9 million of net cash flow from operations enabled us to fund all of our utility plant expenditures internally for the period.

The capital spending program for 2007 is currently estimated to be \$32.1 million, which is lower by \$22.5 million than the amount previously reported in our 2006 Annual Report on Form 10-K. This decrease is due primarily to the slowing of new residential and commercial development in our Delaware service territories. Included in our revised estimate for 2007 are: \$12.1 million for additions and improvements to our Delaware water systems, including the construction of several storage tanks and the creation of new wells and interconnections. We expect to spend approximately \$6.0 million for infrastructure additions and acquisitions for our Delaware wastewater systems. We expect to spend \$3.9 million for the RENEW program, to clean and cement line approximately nine miles of unlined mains in the Middlesex system. There remains a total of approximately 120 miles of unlined mains in the 730-mile Middlesex system. The capital program also includes \$10.1 million for scheduled upgrades to our existing systems in New Jersey. These upgrades consist of \$1.9



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million for improvements to existing plant, \$5.6 million for mains, \$0.7 million for service lines, \$0.4 million for meters, \$0.5 million for hydrants, and \$1.0 million for other infrastructure needs.

To fund our capital program in 2007, we will utilize remaining proceeds from the November 2006 common stock offering, internally generated funds and funds available under existing New Jersey State Revolving Fund (SRF) program loans (currently, \$3.5 million) and Delaware SRF program loans (currently, \$2.1 million). These programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks. We also expect to utilize short-term borrowings through \$40.0 million of available lines of credit with several financial institutions. As of June 30, 2007, \$0.8 million was outstanding against the lines of credit.

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

We currently project that we may be required to expend between \$70 million and \$100 million for capital projects in 2008 and 2009 combined. To the extent possible and because of the favorable interest rates available to regulated water utilities, we will finance our capital expenditures under SRF loan programs. We also expect to use internally generated funds, proceeds from the DRP and proceeds from additional common stock offerings, as needed to maintain an appropriate capital structure balance.

In addition to the effect of weather conditions on revenues, increases in certain operating costs will impact our liquidity and capital resources. As described above, we have recently received rate relief for Tidewater and Southern Shores. Changes in operating costs and timing of capital projects will have an impact on revenues, earnings, and cash flows and will also impact the timing of filings for future rate increases.

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

**Item Quantitative and Qualitative Disclosures of Market Risk**

**3.**

The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our capital program is partially financed with fixed rate, long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our Amortizing Secured Notes and First Mortgage Bonds, which have maturity dates ranging from 2009 to 2038. Over the next twelve months, approximately \$2.6 million of the current portion of sixteen existing long-term debt instruments will mature. Applying a hypothetical change in the rate of interest of 10% on those borrowings would not have a material effect on earnings.

**Item Controls and Procedures**

**4.**

As required by Rule 13a-15 under the Exchange Act, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted by the Company's Chief Executive Officer along with the Company's Chief Financial Officer. Based upon that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this Report. There have been no changes in the Company's internal controls or in other factors, which materially affected internal controls during the quarter ended June 30, 2007.





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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.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

Reference is made to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 and Quarterly Report on Form 10-Q filed for the period ended March 31, 2007. Note 7 to the unaudited Condensed Consolidated Financial Statements for the period ended June 30, 2007, included in Part I of this Quarterly Report on Form 10-Q, is hereby incorporated by reference.

**Item 1A. Risk Factors**

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

Except as described above, information about risk factors for the six months ended June 30, 2007 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, 2006.

**Item 2. Changes in Securities**

None.

**Item 3. Defaults Upon Senior Securities**

None.

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

1. ELECTION OF DIRECTORS:  
Nominees for Class II term expiring 2010

	<u>FOR</u>	<u>%</u>	<u>WITHHOLD</u>	<u>%</u>
Annette Catino	10,662,775	93.6	729,157	6.4
Walter G. Reinhard	10,660,977	93.6	730,955	6.4



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2. Approval of an Amendment to the Restated Certificate of Incorporation to increase the total authorized Common Stock, No par Value, from 20,000,00 to 40,000,000 shares

<u>FOR</u>	<u>%</u>	<u>AGAINST</u>	<u>%</u>	<u>ABSTAIN</u>	<u>%</u>
10,648,916	94.2	659,727	5.8	83,289	0.0

**Item 5. Other Information**

None.

**Item 6. Exhibits**

10.13(h) Employment Agreement between Middlesex Water Company and Bernadette M. Sohler

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

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

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

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

**SIGNATURES**

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

MIDDLESEX WATER COMPANY

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

Date: August 7, 2007

