

Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

MIDDLESEX WATER CO  
Form 10-Q  
August 04, 2006

=====

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, 2006

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 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

The number of shares outstanding of each of the registrant's classes of common stock, as of August 1, 2006: Common Stock, No Par Value: 11,626,997 shares outstanding.

=====

INDEX

Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

PART I.	FINANCIAL INFORMATION	PAGE
		----
Item 1.	Financial Statements:	
	Condensed Consolidated Statements of Income	1
	Condensed Consolidated Balance Sheets	2
	Condensed Consolidated Statements of Cash Flows	3
	Condensed Consolidated Statements of Capital Stock and Long-term Debt	4
	Notes to Unaudited Condensed Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3.	Quantitative and Qualitative Disclosures of Market Risk	19
Item 4.	Controls and Procedures	19
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	20
Item 1A.	Risk Factors	20
Item 2.	Changes in Securities	20
Item 3.	Defaults upon Senior Securities	20
Item 4.	Submission of Matters to a Vote of Security Holders	20
Item 5.	Other Information	20
Item 6.	Exhibits	21
SIGNATURE		22

MIDDLESEX WATER COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	Three Months Ended June 30, 2006	2005	Six Months En 2006
-----			
Operating Revenues	\$ 21,037,055	\$ 18,430,751	\$ 39,267,201
-----			
Operating Expenses:			
Operations	10,011,895	9,409,108	19,658,026
Maintenance	794,248	979,119	1,533,232
Depreciation	1,712,740	1,620,159	3,381,133

Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

Other Taxes	2,369,072	2,163,520	4,572,525
-----			
Total Operating Expenses	14,887,955	14,171,906	29,144,916
-----			
Operating Income	6,149,100	4,258,845	10,122,285
-----			
Other Income:			
Allowance for Funds Used During Construction	115,388	140,456	228,025
Other Income	40,840	35,943	98,778
Other Expense	(12,519)	(16,324)	(14,258)
-----			
Total Other Income, net	143,709	160,075	312,545
-----			
Interest Charges	1,808,118	1,578,078	3,323,116
-----			
Income before Income Taxes	4,484,691	2,840,842	7,111,714
-----			
Income Taxes	1,516,855	894,714	2,331,514
-----			
Net Income	2,967,836	1,946,128	4,780,200
Preferred Stock Dividend Requirements	61,946	63,696	123,893
Earnings Applicable to Common Stock	\$ 2,905,890	\$ 1,882,432	\$ 4,656,307
-----			
Earnings per share of Common Stock:			
Basic	\$ 0.25	\$ 0.17	\$ 0.40
Diluted	\$ 0.25	\$ 0.16	\$ 0.40
-----			
Average Number of Common Shares Outstanding :			
Basic	11,610,579	11,392,964	11,602,149
Diluted	11,941,719	11,736,104	11,933,289
-----			
Cash Dividends Paid per Common Share	\$ 0.1700	\$ 0.1675	\$ 0.3400

See Notes to Condensed Consolidated Financial Statements.

1

MIDDLESEX WATER COMPANY  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

ASSETS

Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

UTILITY PLANT:	Water Production	\$ 93
	Transmission and Distribution	225
	General	23
	Construction Work in Progress	8
	TOTAL	351
	Less Accumulated Depreciation	57
	UTILITY PLANT - NET	293

CURRENT ASSETS:	Cash and Cash Equivalents	2
	Accounts Receivable, net	7
	Unbilled Revenues	4
	Materials and Supplies (at average cost)	1
	Prepayments	1
	TOTAL CURRENT ASSETS	18

DEFERRED CHARGES AND OTHER ASSETS:	Unamortized Debt Expense	3
	Preliminary Survey and Investigation Charges	2
	Regulatory Assets	7
	Restricted Cash	5
	Non-utility Assets - Net	6
	Other	
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	25
	TOTAL ASSETS	\$ 337

CAPITALIZATION AND LIABILITIES

CAPITALIZATION:	Common Stock, No Par Value	\$ 76
	Retained Earnings	24
	Accumulated Other Comprehensive Loss, net of tax	
	TOTAL COMMON EQUITY	101
	Preferred Stock	3
	Long-term Debt	127
	TOTAL CAPITALIZATION	232

CURRENT LIABILITIES:	Current Portion of Long-term Debt	2
	Notes Payable	12
	Accounts Payable	4
	Accrued Taxes	7
	Accrued Interest	1
	Unearned Revenues and Advanced Service Fees	
	Other	
	TOTAL CURRENT LIABILITIES	30

COMMITMENTS AND CONTINGENT LIABILITIES (Note 6)

DEFERRED CREDITS	Customer Advances for Construction	17
------------------	------------------------------------	----

Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

AND OTHER LIABILITIES:	Accumulated Deferred Investment Tax Credits	1
	Accumulated Deferred Income Taxes	14
	Employee Benefit Plans	7
	Regulatory Liability - Cost of Utility Plant Removal	5
	Other	
	-----	
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	47
	-----	
CONTRIBUTIONS IN AID OF CONSTRUCTION		26
	-----	
	TOTAL CAPITALIZATION AND LIABILITIES	\$ 337
	-----	

See Notes to Condensed Consolidated Financial Statements.

2

MIDDLESEX WATER COMPANY  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

	Six Months Ended June 2006	2005
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 4,780,200	\$ 3,320,000
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	3,761,581	3,500,000
Provision for Deferred Income Taxes and ITC	(98,096)	(150,000)
Allowance for Funds Used During Construction	(228,025)	(350,000)
Changes in Assets and Liabilities:		
Accounts Receivable	430,958	(570,000)
Unbilled Revenues	(1,196,207)	(890,000)
Materials & Supplies	(194,796)	(280,000)
Prepayments	(795,386)	(320,000)
Other Assets	(295,364)	(150,000)
Accounts Payable	(1,055,359)	(930,000)
Accrued Taxes	1,361,244	410,000
Accrued Interest	27,729	230,000
Employee Benefit Plans	920,074	890,000
Unearned Revenue & Advanced Service Fees	19,418	70,000
Other Liabilities	(73,277)	(170,000)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,364,694	4,610,000
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility Plant Expenditures*	(11,895,711)	(11,590,000)
Cash Surrender Value & Other Investments	(104,304)	(150,000)
Restricted Cash	97,870	4,310,000
Preliminary Survey & Investigation Charges	(754,079)	(490,000)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(12,656,224)	(7,920,000)
	-----	-----

Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of Long-term Debt	(554,803)	(35)
Proceeds from Issuance of Long-term Debt	1,268	54
Net Short-term Bank Borrowings (Repayments)	8,600,000	3,000
Deferred Debt Issuance Expenses	--	(
Restricted Cash	(10,862)	
Proceeds from Issuance of Common Stock	767,306	1,200
Payment of Common Dividends	(3,943,437)	(3,800)
Payment of Preferred Dividends	(123,893)	(120)
Construction Advances and Contributions-Net	(126,038)	60
-----		
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	4,609,541	1,050
-----		
NET CHANGES IN CASH AND CASH EQUIVALENTS	(681,989)	(2,250)
-----		
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,983,762	4,030
-----		
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,301,773	\$ 1,770
-----		

\*Excludes Allowance for Funds Used During Construction

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:		
Utility Plant received as Construction Advances and Contributions	\$ 2,095,395	\$ 480
-----		
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for:		
Interest	\$ 3,319,220	\$ 2,770
Interest Capitalized	\$ (228,025)	\$ (350)
Income Taxes	\$ 2,039,550	\$ 1,800
-----		

See Notes to Condensed Consolidated Financial Statements.

3

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

	June 30, 2006	De
-----		
Common Stock, No Par Value:		
Shares Authorized - 20,000,000		
Shares Outstanding - 2006 - 11,619,662	\$ 76,928,255	\$
2005 - 11,584,499		
Retained Earnings	24,351,171	
Accumulated Other Comprehensive Loss, net of tax	(206,702)	
-----		
TOTAL COMMON EQUITY	\$ 101,072,724	\$
-----		

Cumulative Preference Stock, No Par Value:

## Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

Shares Authorized - 100,000		
Shares Outstanding - None		
Cumulative Preferred Stock, No Par Value		
Shares Authorized - 139,497		
Convertible:		
Shares Outstanding, \$7.00 Series - 13,881	\$ 1,457,505	\$
Shares Outstanding, \$8.00 Series - 12,000	1,398,857	
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1,017	101,700	
Shares Outstanding, \$4.75 Series - 10,000	1,000,000	
<hr style="border-top: 1px dashed black;"/>		
TOTAL PREFERRED STOCK	\$ 3,958,062	\$
<hr style="border-top: 1px dashed black;"/>		
Long-term Debt:		
8.05%, Amortizing Secured Note, due December 20, 2021	\$ 2,940,611	\$
6.25%, Amortizing Secured Note, due May 22, 2028	9,205,000	
6.44%, Amortizing Secured Note, due August 25, 2030	6,766,667	
6.46%, Amortizing Secured Note, due September 19, 2031	7,000,000	
4.22%, State Revolving Trust Note, due December 31, 2022	738,772	
3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025	3,019,522	
3.49%, State Revolving Trust Note, due January 25, 2027	278,144	
4.00% to 5.00%, State Revolving Trust Bond, due September 1, 2021	760,000	
0.00%, State Revolving Fund Bond, due September 1, 2021	604,038	
First Mortgage Bonds:		
5.20%, Series S, due October 1, 2022	12,000,000	
5.25%, Series T, due October 1, 2023	6,500,000	
6.40%, Series U, due February 1, 2009	15,000,000	
5.25%, Series V, due February 1, 2029	10,000,000	
5.35%, Series W, due February 1, 2038	23,000,000	
0.00%, Series X, due September 1, 2018	688,524	
4.25% to 4.63%, Series Y, due September 1, 2018	870,000	
0.00%, Series Z, due September 1, 2019	1,539,390	
5.25% to 5.75%, Series AA, due September 1, 2019	1,990,000	
0.00%, Series BB, due September 1, 2021	1,894,335	
4.00% to 5.00%, Series CC, due September 1, 2021	2,185,000	
5.10%, Series DD, due January 1, 2032	6,000,000	
0.00%, Series EE, due September 1, 2024	7,652,023	
3.00% to 5.50%, Series FF, due September 1, 2024	8,920,000	
<hr style="border-top: 1px dashed black;"/>		
SUBTOTAL LONG-TERM DEBT	129,552,026	1
<hr style="border-top: 1px dashed black;"/>		
Less: Current Portion of Long-term Debt	(2,069,712)	
<hr style="border-top: 1px dashed black;"/>		
TOTAL LONG-TERM DEBT	\$ 127,482,314	\$ 1
<hr style="border-top: 1px dashed black;"/>		

See Notes to Condensed Consolidated Financial Statements.

4

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 organization and sole shareholder of Tidewater Utilities, Inc. (Tidewater), Tidewater

## Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

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). On January 1, 2006, the Company's Bayview Water Company subsidiary was merged into Middlesex. 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 2005 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, 2006 and the results of operations for the three and six month periods ended June 30, 2006 and 2005, and cash flows for the six month periods ended June 30, 2006 and 2005. Information included in the Balance Sheet as of December 31, 2005, has been derived from the Company's audited financial statements for the year ended December 31, 2005.

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 is effective for fiscal years beginning after December 15, 2006. The Company is in the process of evaluating the impact of the adoption of this interpretation on the Company's results of operations and financial condition.

On March 31, 2006, the FASB issued an exposure draft that would require recognition of the overfunded or underfunded positions of defined benefit pension and other postretirement plans on the balance sheet. For an underfunded plan, the incremental liability to be recorded would be equal to the difference between the projected benefit obligation and the fair value of plan assets. Statement of Financial Accounting Standard No. 87, "Employers' Accounting for Pensions" (SFAS 87) and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106) allow for deferred recognition of this liability through amortization of this difference over time. Under this exposure draft, actuarial gains and losses and prior service costs and credits that arise during the period but, pursuant to SFAS 87 and SFAS 106 are not yet recognized as components of net periodic benefit cost, would be recognized as a component of Other Comprehensive Income (net of tax). The exposure draft also would require an adjustment to the beginning balance of retained earnings (net of tax) for any transition obligation remaining from the initial application of SFAS 87 and 106. Such amounts would subsequently not be amortized as a component of net periodic benefit cost.

If the exposure draft is adopted as proposed, such amounts not yet recognized would result in a material reduction of the Company's shareholders' equity, and thus have an adverse impact on its current rate-making methodology. Accordingly, the Company would petition the New Jersey Board of Public Utilities (BPU) to seek to have the amounts recognized as Other Comprehensive Income treated as a Regulatory Asset and amortize these costs in rates. The Company is unable to predict the ultimate regulatory treatment that would be applied if a pronouncement were adopted according to the exposure draft in its present form.



## Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

Rate Matters - On April 28, 2006, Tidewater filed for a \$5.5 million, or 38.6%, base rate increase with the Delaware Public Service Commission (PSC). The request is intended to recover increased costs of operations, maintenance and taxes, as well as capital investment of approximately \$23.8 million since rates were last established in March 2005. We cannot predict whether the PSC will ultimately approve, deny, or reduce the amount of the request. Concurrent with the rate filing, Tidewater also submitted a request for a 15% interim rate increase subject to refund as allowed under PSC regulations. The interim rates went into effect on June 27, 2006.

Effective April 13, 2006, Pinelands Water and Pinelands Wastewater received approval from the BPU for base rate increases of 7.02% and 0.98%, respectively. These increases represent a total base rate increase of approximately \$0.1 million for Pinelands to offset increased costs associated with capital improvements, and the operation and maintenance of their systems.

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2006. Under the terms of a contract with Southern Shores Homeowners Association, the increase cannot exceed the lesser of the regional Consumer Price Index or 3%. The rates are set to expire on December 31, 2006, and the Company is currently negotiating a new agreement.

### Note 2 - Capitalization

Common Stock -During the six months ended June 30, 2006, there were 35,553 common shares (approximately \$0.8 million) issued under the Company's Dividend Reinvestment and Common Stock Purchase Plan.

Long-term Debt - On July 19, 2006, 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 close on the bonds in November 2006.

On April 25, 2006, Tidewater received approval from the PSC to borrow up to \$1.0 million under the Delaware SRF program. The Delaware SRF program allows, but does not obligate, Tidewater to draw against a General Obligation Note for a specific project over a two-year period ending in April 2008. On May 31, 2006, the Company closed on the loan with an established interest rate of 4.03%.

6

### Note 3 - Earnings Per Share

Basic earnings per share (EPS) are computed on the basis of the weighted average number of shares outstanding. 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 for per Share Amounts)  
Three Months Ended  
June 30,

	2006	Weighted	2005
	Income	Average	Income
		Shares	
Basic:			

---

Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

Net Income	\$ 2,968	11,611	\$ 1,946
Preferred Dividend	(62)		(64)
Earnings Applicable to Common Stock	\$ 2,906	11,611	\$ 1,882
Basic EPS	\$ 0.25		\$ 0.17

Diluted:

Earnings Applicable to Common Stock	\$ 2,906	11,611	\$ 1,882
\$7.00 Series Preferred Dividend	24	167	26
\$8.00 Series Preferred Dividend	24	164	24
Adjusted Earnings Applicable to Common Stock	\$ 2,954	11,942	\$ 1,932
Diluted EPS	\$ 0.25		\$ 0.16

Six Months Ended  
June 30,

Basic:	2006 Income	Weighted Average Shares	2005 Income
Net Income	\$ 4,780	11,602	\$ 3,326
Preferred Dividend	(124)		(127)
Earnings Applicable to Common Stock	\$ 4,656	11,602	\$ 3,199
Basic EPS	\$ 0.40		\$ 0.28

Diluted:

Earnings Applicable to Common Stock	\$ 4,656	11,602	\$ 3,199
\$7.00 Series Dividend	49	167	52
\$8.00 Series Dividend	48	164	48
Adjusted Earnings Applicable to Common Stock	\$ 4,753	11,933	\$ 3,299
Diluted EPS	\$ 0.40		\$ 0.28

Note 4 - 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 the operations of a regulated wastewater system in New Jersey. The Company is subject to regulations as to its rates, services and other matters by the States

## Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

of New Jersey and Delaware with respect to utility services within these States. The other segment primarily includes non-regulated contract services for the operation and maintenance of municipal and private water and wastewater systems in New Jersey and Delaware. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Consolidated Notes to the Financial Statements in the Company's Annual Report for the period ended December 31, 2005 filed on Form 10-K. 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. These inter-segment transactions are eliminated in the Company's consolidated financial statements.

	(Dollars in Thousands)			
	Three Months Ended June 30		Six Months Ended June 30,	
Operations by Segments:	2006	2005	2006	2005
<hr/>				
<b>Revenues:</b>				
Regulated	\$ 18,663	\$ 16,393	\$ 34,663	\$ 31,152
Non - Regulated	2,404	2,068	4,664	4,082
Inter-segment Elimination	(30)	(30)	(60)	(60)
<hr/>				
Consolidated Revenues	\$ 21,037	\$ 18,431	\$ 39,267	\$ 35,174
<hr/>				
<b>Operating Income:</b>				
Regulated	\$ 5,746	\$ 4,104	\$ 9,449	\$ 7,067
Non - Regulated	403	155	673	363
<hr/>				
Consolidated Operating Income	\$ 6,149	\$ 4,259	\$ 10,122	\$ 7,430
<hr/>				
<b>Net Income:</b>				
Regulated	\$ 2,741	\$ 1,867	\$ 4,407	\$ 3,140
Non - Regulated	227	79	373	186
<hr/>				
Consolidated Net Income	\$ 2,968	\$ 1,946	\$ 4,780	\$ 3,326
<hr/>				
<b>Capital Expenditures:</b>				
Regulated	\$ 7,148	\$ 7,313	\$ 11,679	\$ 11,446
Non - Regulated	199	88	217	147
<hr/>				
Total Capital Expenditures	\$ 7,347	\$ 7,401	\$ 11,896	\$ 11,593
<hr/>				
	As of June 30, 2006 ----	As of December 31, 2005 ----		
<b>Assets:</b>				
Regulated	\$334,018	\$320,889		
Non - Regulated	6,207	5,912		
Inter-segment Elimination	(2,792)	(2,418)		
<hr/>				
Consolidated Assets	\$337,433	\$324,383		
<hr/>				

## Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

### Note 5 - Short-term Borrowings

As of June 30, 2006, the Company has established lines of credit aggregating \$38.0 million. At June 30, 2006, the outstanding borrowings under these credit lines were \$12.6 million at a weighted average interest rate of 5.80%. As of that date, the Company had borrowing capacity of \$25.4 million under its credit lines.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were \$9.2 million and \$12.0 million at 5.91% and 4.36% for the three months ended June 30, 2006 and 2005, 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 \$7.6 million and \$11.1 million at 5.82% and 4.11% for the six months ended June 30, 2006 and 2005, respectively.

### Note 6 - Commitments and Contingent Liabilities

Guarantees - USA-PA operates the City of Perth Amboy's (Perth Amboy) water and wastewater systems under a service contract agreement 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 2006 are \$7.6 million. The fixed fees will increase over the term of the contract to \$10.2 million.

In connection with the agreement, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately \$68.0 million in three series of bonds. 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, 2006, approximately \$23.9 million of the Series C Serial Bonds remained outstanding.

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

Water Supply - Middlesex has an agreement with the New Jersey Water Supply Authority (NJWSA) for the purchase of untreated water through November 30, 2023, which provides for an average purchase of 27 million gallons 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.

## Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

Purchased water costs are shown below:

	(Dollars in Millions)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Purchased Water				
Treated	\$ 0.5	\$ 0.5	\$ 1.1	\$ 1.1
Untreated	0.4	0.5	0.9	0.9
	-----			
Total Costs	\$ 0.9	\$ 1.0	\$ 2.0	\$ 2.0
	-----			

Construction - The Company expects to spend approximately \$37.8 million on its construction program in 2006.

Litigation - A lawsuit was filed in 1998 against the Company by an electric utility for damages involving the break of both a Company water line and an underground electric power cable containing both electric lines and petroleum based insulating fluid. The electric utility also asserted claims against the Company. The lawsuit was settled in 2003, and by agreement, the electric utility's counterclaim for approximately \$1.1 million in damages was submitted to binding arbitration, in which the agreed maximum exposure of the Company is \$0.3 million, for which the Company has accrued a liability.

During 2005, the Office of State Fire Marshal in Delaware issued a Notice of Violation (NOV) to Tidewater regarding a plan of correction to provide fire protection services to one of Tidewater's community water systems, based upon a recent interpretation by the Fire Marshal of regulations that have been effective since 1989. Tidewater has appealed this NOV in the Superior Court of the State of Delaware on the grounds that the water system was grandfathered under the 1989 regulations and that due process had not been served in the application of the recent interpretation. It is the Company's position that Tidewater is not required to provide fire protection service to that water system. If Tidewater is not successful in its appeal, it would be required to install a fire protection system in this community at an estimated capital cost of \$0.9 million to \$1.6 million. If the Company is unsuccessful in its appeal, we cannot predict what further actions, if any, or the costs or timing thereof, may be taken by the Fire Marshal regarding over 60 of Tidewater's other community water systems. However, such amounts could be material. The Company believes that any required capital investments resulting from an unfavorable outcome would be a component of Tidewater's rate base and therefore, included in future rates. While we are unable to predict the outcome of our appeal, we believe that we have substantial defenses.

The Company is a defendant in various 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.

10

### Note 7 - 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

## Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

contributed \$1.3 million of cash to the plan in July 2006. In addition, the Company maintains an unfunded supplemental pension plan for seven company officers.

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 total cash contributions of \$1.0 million during the current year. These contributions are expected to be made in the fourth quarter of 2006.

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

	(Dollars in Thousands)			
	Pension Benefits		Other Benefits	
	-----			
	Three Months Ended June 30,			
	2006	2005	2006	2005
-----				
Service Cost	\$ 334	\$ 283	\$ 189	\$ 153
Interest Cost	425	381	201	193
Expected Return on Assets	(402)	(384)	(83)	(69)
Amortization of Unrecognized Losses	62	3	111	120
Amortization of Unrecognized Prior Service Cost	3	23	--	--
Amortization of Transition Obligation	--	--	34	34
-----				
Net Periodic Benefit Cost	\$ 422	\$ 306	\$ 452	\$ 431
-----				

	(Dollars in Thousands)			
	Pension Benefits		Other Benefits	
	-----			
	Six Months Ended June 30,			
	2006	2005	2006	2005
-----				
Service Cost	\$ 644	\$ 565	\$ 366	\$ 306
Interest Cost	855	762	419	385
Expected Return on Assets	(816)	(768)	(174)	(137)
Amortization of Unrecognized Losses	119	7	240	240
Amortization of Unrecognized Prior Service Cost	3	46	--	--
Amortization of Transition Obligation	--	--	68	68
-----				
Net Periodic Benefit Cost	\$ 805	\$ 612	\$ 919	\$ 862
-----				

### Note 8 - Stock Based Compensation

The Company recognizes compensation expense at fair value for its restricted stock awards in accordance with SFAS 123(R). The adoption of this standard on January 1, 2006 did not have a material impact on the Company's financial position, results of operations, or cash flows.

The Company maintains a Restricted Stock Plan, under which 56,067 shares of the Company's common stock are held in escrow by the Company as of June 30, 2006 for key employees. Such stock is subject to an

Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

11

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 this plan is 240,000 shares. There were no grants, vesting or forfeitures of restricted stock during the six months ended June 30, 2006.

Compensation expense is determined by the market value of the stock on the date of the award and is being amortized over a five-year period. Compensation expense for the three months ended June 30, 2006 and 2005 was \$0.1 million. Compensation expense for the six months ended June 30, 2006 and 2005 was \$0.1 million. Total unearned compensation related to restricted stock was \$0.6 million at June 30, 2006.

Note 9 - Other Comprehensive Income

Comprehensive income was as follows:

	(Dollars in Thousands)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net Income	\$2,967,836	\$1,946,128	\$4,780,200	\$3,325,830
Other Comprehensive Income:				
Change in Value of Equity Investments, Net of Income Tax	--	9,660	223	9,047
Other Comprehensive Income	--	9,660	223	9,047
Comprehensive Income	\$2,967,836	\$1,955,788	\$4,780,423	\$3,334,877

12

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, 2005.

Forward-Looking Statements

Certain statements contained in this quarterly report are "forward-looking statements" within the meaning of federal securities laws. The Company intends that these statements be covered by the safe harbors created under those laws. These statements include, but are not limited to:

## Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

- 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 2006 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 pension plan, 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;
- acts of war or terrorism; 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

13

Company's understanding as of the date of this quarterly 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 quarterly 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, 2005.

Overview



## Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

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. We are regulated as to rates charged to customers for water and wastewater services in New Jersey and Delaware, as to the quality of water service we provide 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 58,500 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 267,000. 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 29,100 retail customers in New Castle, Kent, and Sussex Counties, Delaware. Our TESI subsidiary provides regulated wastewater service to approximately 30 residential retail customers. White Marsh serves 4,000 customers under unregulated operating contracts with various owners of small water and wastewater systems in Kent and Sussex Counties.

Our USA subsidiary provides customers within the Middlesex System a service line maintenance program called LineCareSM.

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.

14

### Recent Developments

#### Rate Increases

Tidewater filed for a \$5.5 million, or 38.6%, base rate increase with the Delaware Public Service Commission (PSC) on April 28, 2006. The requested increase is intended to recover increased costs of operations, maintenance and taxes, as well as capital investment of approximately \$23.8 million since rates were last established in March 2005. We cannot predict whether the PSC will ultimately approve, deny, or reduce the amount of the request. Concurrent with the rate filing, Tidewater also submitted a request for a 15% interim rate increase subject to refund, as allowed under PSC regulations. The interim rates went into effect on June 27, 2006.

Effective April 13, 2006, Pinelands Water and Pinelands Wastewater received approval from the BPU for base rate increases of 7.02% and 0.98%, respectively. These increases represent a total base rate increase of approximately \$0.1

## Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

million for Pinelands to offset increased costs associated with capital improvements, and the operation and maintenance of their systems.

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2006. Under the terms of a contract with the Southern Shores Homeowners Association, the increase cannot exceed the lesser of the regional Consumer Price Index or 3%. The rates are set to expire on December 31, 2006, and the Company is currently negotiating a new agreement.

### Merger of Bayview Water Company into Middlesex Water Company

In December 2005, the BPU approved a merger of Bayview into the Middlesex system effective January 1, 2006. As part of the BPU's stipulation approving the merger, the water service rates for the customers of Bayview are to remain at their current levels until the water service rates for Middlesex customers exceed the current Bayview rates.

### Operating Results by Segment

The Company has two operating segments, Regulated and Non-Regulated. Our Regulated segment contributed 88% of total revenues and 92% of net income for the six months ended June 30, 2006 and 2005. 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, and TESI; Non-Regulated- USA, USA-PA, and White Marsh.

15

### Results of Operations - Three Months Ended June 30, 2006

	(Thousands of Dollars)				
	Three Months Ended June 30,				
	2006			2005	
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated
Revenues	\$ 18,663	\$ 2,374	\$ 21,037	\$ 16,393	\$ 2,038
Operations and maintenance expenses	8,921	1,885	10,806	8,593	1,795
Depreciation expense	1,683	30	1,713	1,594	26
Other taxes	2,313	56	2,369	2,102	62
Operating income	5,746	403	6,149	4,104	155
Other income	144	--	144	160	--
Interest expense	1,784	24	1,808	1,555	23
Income taxes	1,365	152	1,517	842	53
Net income	\$ 2,741	\$ 227	\$ 2,968	\$ 1,867	\$ 79

Operating revenues for the three months ended June 30, 2006 increased \$2.6 million, or 14.1%, from the same period in 2005. Water sales improved by \$1.4

## Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

million in our New Jersey systems, of which \$1.1 million was a result of a base rate increase that was granted to Middlesex on December 8, 2005, and \$0.3 million was due to additional consumption as a result of favorable weather. Revenues rose in our Delaware service territories by \$0.9 million. Higher water consumption sales by our existing customers contributed \$0.3 million in revenue, customer growth contributed \$0.2 million of water sales, and base rate increases provided an additional \$0.1 million. Connection fee revenues contributed an additional \$0.3 million in Delaware. USA-PA contributed an additional \$0.2 million related to additional services provided to the City of Perth Amboy. New unregulated wastewater contracts in Delaware provided \$0.1 million of additional revenues. Revenues for all other operations were comparable to the prior year period.

While we anticipate continued organic customer and consumption growth 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. 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 4.0%. In New Jersey, payroll and benefits costs increased \$0.1 million. The continued growth of our Delaware systems resulted in \$0.1 million of increases for the cost of water treatment, insurance and additional employees and related benefit costs. Wastewater treatment costs for White Marsh increased by \$0.1 million. All other operating expenses increased \$0.1 million.

We are experiencing increases in electric generation costs in Delaware due to deregulation of electricity. We expect our pension and postretirement costs to increase in 2006. Payroll and related employee benefit costs (excluding pension and postretirement expenses previously discussed) are also expected to be higher in 2006.

Depreciation expense increased \$0.1 million, or 5.7%, primarily as a result of a higher level of utility plant in service since June 30, 2005.

16

Other taxes increased by \$0.2 million, reflecting taxes on increased taxable gross revenues in New Jersey.

Interest expense increased by \$0.2 million, primarily due to higher average long-term borrowings as compared to the prior year period.

Income taxes increased by \$0.6 million as a result of increased operating income as compared to the prior year period.

Net income increased by 52.5% from \$1.9 million to \$3.0 million. Basic earnings per share increased from \$0.17 to \$0.25 due to the increase in earnings. Diluted earnings per share increased from \$0.16 to \$0.25.

Results of Operations - Six Months Ended June 30, 2006

(Thousands of Dollars)  
Six Months Ended June 30,

Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

	2006			2005	
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated
Revenues	\$ 34,663	\$ 4,604	\$ 39,267	\$ 31,152	\$ 4,412
Operations and maintenance expenses	17,432	3,759	21,191	16,841	3,750
Depreciation expense	3,324	57	3,381	3,121	260
Other taxes	4,458	115	4,573	4,123	450
Operating income	9,449	673	10,122	7,067	1,052
Other income	313	--	313	417	--
Interest expense	3,273	50	3,323	2,914	409
Income taxes	2,082	250	2,332	1,430	902
Net income	\$ 4,407	\$ 373	\$ 4,780	\$ 3,140	\$ 1,142

Operating revenues for the six months ended June 30, 2006 increased \$4.1 million, or 11.6%, from the same period in 2005. Water sales improved by \$2.4 million in our New Jersey systems, of which \$2.1 million was a result of a base rate increase that was granted to Middlesex on December 8, 2005, and \$0.3 million was due to additional consumption as a result of favorable weather. Revenues rose in our Delaware service territories by \$1.1 million. Higher water consumption sales by our existing customers contributed \$0.3 million in revenue, customer growth contributed \$0.4 million of water sales, and base rate increases provided an additional \$0.2 million. Connection fee revenues contributed an additional \$0.2 million in Delaware. USA-PA contributed an additional \$0.3 million related to additional services provided to the City of Perth Amboy. New unregulated wastewater contracts in Delaware provided \$0.2 million of additional revenues. All other operations accounted for \$0.1 million of additional revenues.

Operation and maintenance expenses increased \$0.9 million, or 4.2%. Pumping and water treatment costs for our Middlesex system increased a combined \$0.3 million due to higher costs for electricity, chemicals and disposal of residuals. This increase was partially offset by \$0.1 million of reduced cost of repairs to the Middlesex system. In New Jersey, corporate governance related fees and bill production costs increased \$0.1 million. As previously discussed, the continuing growth of our Delaware systems resulted in higher costs of water treatment, additional employees and related benefit expenses, and corporate governance related fees of \$0.3 million. Costs related to providing services by our non-regulated wastewater operation in Delaware increased by \$0.2 million. All other operating costs increased by \$0.1 million.

17

Depreciation expense increased \$0.2 million, or 6.7%, due to the higher level of utility plant in service, as discussed for the three-month results.

Other taxes increased by \$0.3 million, reflecting taxes on higher taxable gross revenues in New Jersey.

Other income decreased \$0.1 million, primarily due to reduced Allowance for Funds Used During Construction as a result of the timing of spending for capital projects in New Jersey and Delaware as compared to the prior year. Also, while

## Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

overall capital spending increased from \$11.6 million to \$11.9 million, our TESI subsidiary acquired a \$1.4 million wastewater system during 2006 rather than construct it.

Interest expense increased by \$0.4 million, primarily due to higher average long-term borrowings as compared to the prior year.

Income taxes increased by \$0.8 million as a result of increased operating income as compared to the prior year.

Net income increased by \$1.5 million, or 43.7%, and basic and diluted earnings per share increased from \$0.28 to \$0.40 per share. The earnings per share increase was due to the higher net income.

### 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, 2006, cash flows from operating activities were \$7.4 million, an increase of \$2.7 million from the prior year. This increase was attributable to increased earnings, the timing of collection of customer receivables and payments for taxes. These increases were partially offset by the timing of payments to vendors and payments of interest. The \$7.4 million of net cash flow from operations allowed us to fund 62% of our utility plant expenditures internally for the period, with the remainder funded with proceeds from equity issued under our Dividend Reinvestment Plan and short-term borrowings.

The Company's capital program for 2006 is estimated to be \$37.8 million and includes \$20.2 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 \$7.2 million for system additions and acquisitions for our Delaware wastewater systems. We expect to spend \$3.3 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 \$7.1 million for scheduled upgrades to facilities in New Jersey. These upgrades consist of \$1.4 million for improvements to existing plant, \$1.0 million for mains, \$0.8 million for service lines, \$0.4 million for meters, \$0.3 million for hydrants, and \$3.2 million for other infrastructure needs.

To fund our capital program in 2006, we will utilize internally generated funds and funds available under existing New Jersey Environmental Infrastructure Trust (NJEIT) loans (currently, \$4.1 million) and Delaware State Revolving Fund (SRF) loans (currently, \$3.9 million), which provide low cost financing for projects that meet certain water quality and system improvement benchmarks. We also expect to utilize short-term borrowings through \$38.0 million of available lines of credit with several financial institutions. As of June 30, 2006, \$12.6 million was outstanding against the lines of credit.

18

On July 19, 2006, Middlesex received approval from the BPU to issue up to \$4.0 million of first mortgage bonds through the NJEIT. The Company expects to close on the bonds in November 2006. The proceeds from this financing will be used to fund the 2007 RENEW program.

On April 25, 2006, Tidewater received approval from the PSC to borrow up to \$1.0 million under the Delaware SRF program. The Delaware SRF program allows, but

## Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

does not obligate, Tidewater to draw against a General Obligation Note for a specific project over a two-year period ending in April 2008. On May 31, 2006, the Company closed on the loan with an established interest rate of 4.03%.

The Company periodically issues shares of common stock in connection with our dividend reinvestment and stock purchase plan (DRP). From time to time, the Company may issue additional equity to reduce short-term indebtedness, fund our capital program, and for other general corporate purposes. Middlesex has filed an application with the BPU seeking approval to issue up to 1.5 million shares of common stock before the end of 2006.

Going forward into 2007 through 2008, we currently project that we will expend between \$85.9 million and \$112.2 million for capital projects. 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 the proceeds from the 1.5 million share common stock offering to pay for our capital program.

In addition to the effect of weather conditions on revenues, increases in certain operating costs will impact our liquidity and capital resources. As described in our overview section, we have recently received rate relief for Middlesex and Pinelands. 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 3. Quantitative and Qualitative Disclosures of Market Risk

The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our capital program is partially financed with fixed rate, long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our Amortizing Secured Notes and First Mortgage Bonds, which have maturity dates ranging from 2009 to 2038. Over the next twelve months, approximately \$2.1 million of the current portion of fifteen existing long-term debt instruments will mature. Applying a hypothetical change in the rate of interest of 10% on those borrowings would not have a material effect on earnings.

### Item 4. Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted by the Company's Chief Executive Officer along with the Company's Chief Financial Officer. Based upon that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this Report. There have been no changes in the Company's internal controls or in other factors, which materially affected internal controls during the quarter ended June 30, 2006.

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

## Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

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, 2005 and Quarterly Report on Form 10-Q filed for the period ended March 31, 2006.

#### Item 1A. Risk Factors

Information about risk factors for the three months ended June 30, 2006 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, 2005.

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

None.

#### Item 3. Defaults Upon Senior Securities

None.

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

The following matter was submitted to a vote of the security holders during the Company's Annual Meeting of Shareholders held on May 24, 2006:

Election of Directors. Nominees for Class I, term expiring 2009:

	FOR	WITHHELD
	---	-----
John C. Cutting	9,559,257	261,143
Dennis W. Doll	9,656,190	164,210
John P. Mulkerin	9,557,523	262,877

#### Item 5. Other Information

None.

20

#### Item 6. Exhibits

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

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

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

Edgar Filing: MIDDLESEX WATER CO - Form 10-Q

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

21

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 4, 2006

22