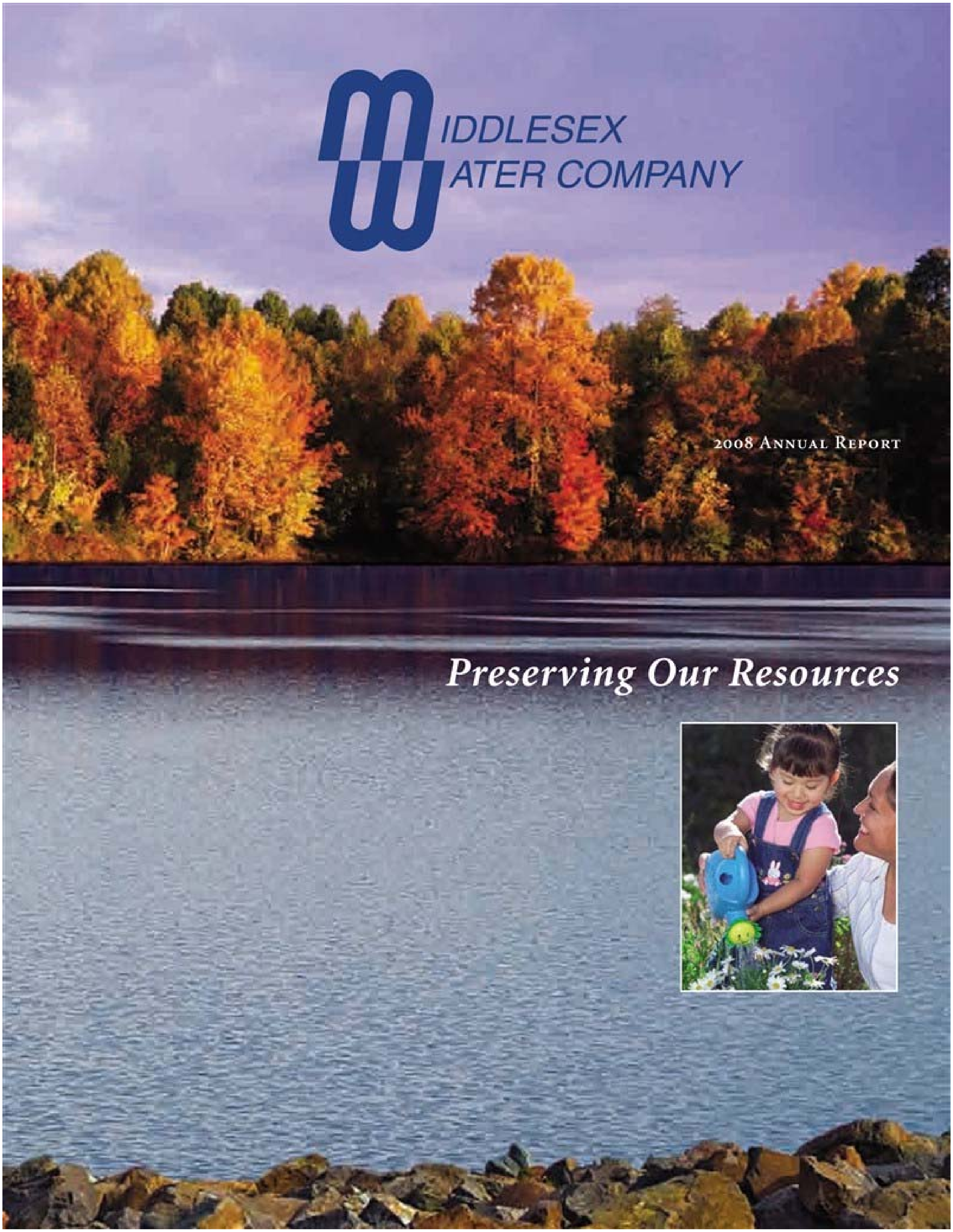


MIDDLESEX WATER COMPANY

2008 Annual Report

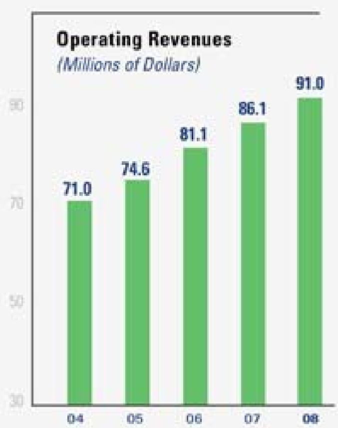
Preserving Our Resources

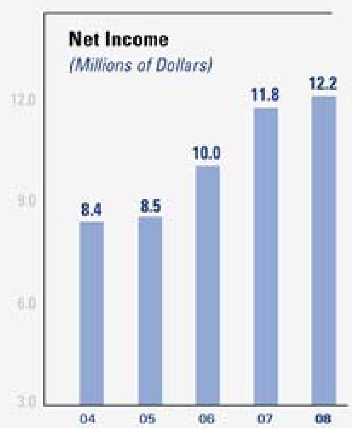
Company Profile

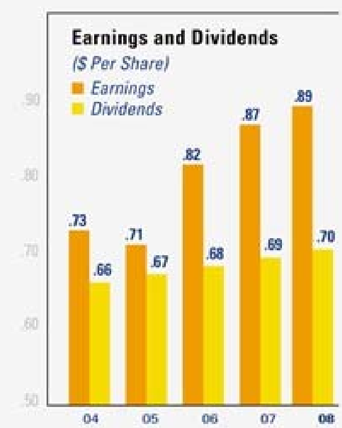
Middlesex Water Company was incorporated as a water utility company in 1897 and owns and operates regulated water utility and wastewater systems in New Jersey and Delaware. The Company also operates water and wastewater systems under contract on behalf of municipal and private clients in New Jersey and Delaware. The Company's common stock trades on the NASDAQ Global Select Market under the symbol MSEX.

Financial Highlights

(Millions of Dollars, Except per Share Data)	**2008**	2007	2006
Operating Revenues	**$91.0**	$86.1	$81.1
Operation and Maintenance Expenses	**48.9**	46.2	43.3
Depreciation	**7.9**	7.5	7.1
Income and Other Taxes	**16.2**	15.4	14.4
Interest Charges	**7.1**	6.6	7.0
Net Income	**12.2**	11.8	10.0
Earnings Applicable to Common Stock	**12.0**	11.6	9.8
Basic Earnings per Share	**0.90**	0.88	0.83
Diluted Earnings per Share	**0.89**	0.87	0.82
Cash Dividends Paid per Share	**0.70**	0.69	0.68
Utility Plant	**430.1**	398.6	370.6
Return on Average Common Equity	**8.6%**	8.9%	9.4%







Our Services

- Water Production, Treatment and Distribution
- Wastewater Collection and Treatment
- Ownership and Operation of Utilities
- Plant Operations and Maintenance
- Public/Private Partnerships
- Water and Sewer Line Maintenance
- Utility Billing and Collections
- Community Irrigation
- Water and Wastewater Contract Operations

On the cover: *The Round Valley Reservoir is a critical part of the Raritan Basin Water Supply and a vital water supply resource for Middlesex Water customers.*

To Our Shareholders

As we reflect on 2008, we see a year filled with extraordinary volatility in our national economy, a heightened awareness of our nation's substantial need for infrastructure upgrade and replacement and your company's continued evolution as a stable and growing provider of critical utility services.

We reported favorable financial results for 2008 despite ongoing economic uncertainties which affected many more companies and individuals over the past year. A continued slowdown in residential construction and continued tightening in the credit markets posed new challenges, but we were nonetheless able to achieve reasonable growth in revenues and customers, maintain appropriate operational integrity, finance our capital construction needs at reasonable rates and support our customers and our communities in numerous ways. While the economic challenges continue to be felt by many companies, your investment in Middlesex Water Company is largely backed by a reasonably predictable revenue stream, a stable customer base, equity-based investments and the stability of a mature regulatory model in the jurisdictions where we serve.

Our announcement in September that we intend to operate as a regulated utility in North Carolina is a significant milestone for your company. As we have communicated in recent years, the continued and growing need for vital water and wastewater services in many places in the country is providing us with opportunities to expand our geographic footprint in a manner that can provide further opportunity for our shareholders, without deviating from the risk/reward profile that we manage to in our companies in New Jersey and Delaware. A number of our shareholders frequently provide positive feedback about our strong dividend record and related dividend yield, our disciplined approach to further growth and profitability and our continued commitment to remain focused on our core competencies. In looking back at 2008, we believe this discipline has served our shareholders well. Although the company's share price has seen some volatility in the market, on balance we have fared better than many during these uncertain times in preserving shareholder value, all while meeting numerous operational and financial objectives.

Maintaining Infrastructure and Water Quality

We met numerous infrastructure needs in 2008 in the areas of water production, distribution and water and wastewater treatment. Our capital management process is critical in meeting our short-term needs, and also is helping to identify and plan for infrastructure investment that will be required to serve our next generation of customers. Examples include the completion of a large filter rehabilitation project at our Carl J. Olson Treatment Plant in New Jersey; the conclusion of a prudence review before the New Jersey Board of Public Utilities regarding construction of the next phase of a major transmission pipeline in Middlesex County, New Jersey; a project currently in-progress to eliminate hazardous gaseous chlorine from the water treatment process and replace it with

left to right:
Dennis W. Doll
President and Chief Executive Officer

J. Richard Tompkins
Chairman of the Board

"The growing need for vital water and wastewater services in many places in the country is providing us with opportunities to expand our geographic footprint."

Ticker: NASDAQ: MSEX
Year Established: 1897
Headquarters: Iselin, NJ

Service Areas:
Parts of New Jersey and Delaware

Population Served:
(Retail)
451,500

Dividend History:
Quarterly dividends paid since 1912

a liquid form that is safer to our employees and to the environment; completion of the thirteenth year of our twenty-five year "RENEW" program to clean and cement-line hundreds of miles of aging unlined water mains for improved pressures and water quality; and improvements in supply, treatment and distribution capabilities at numerous facilities in our Delaware service territory.

We continue to keep an appropriate focus on long-term planning for our sources of water supply as well as our production and distribution capabilities. Analysis of water quality and the related public health impacts are a significant ongoing priority for our Federal and State environmental regulators. Through our active participation in various organizations we work with regulators to ensure the coordination of planning efforts.

These are just some of the examples of the many contributions made by our competent and dedicated employees throughout the year.

In our Delaware operations we have been successful in combining our commitment to reliable, environmentally-friendly water and wastewater solutions with sound public policy for growth and infrastructure. We received approval in December 2008 from the Sussex County, Delaware Council to construct two regional wastewater collection and treatment facilities that met several objectives. Those objectives included: 1). effecting growth in geographic areas that are most desirable by the governing bodies and citizens, 2). preserving open space in perpetuity for farm-land preservation that is so important to the heritage of the many proud farming families, and to Delaware residents at-large, 3). developing reliable, environmentally-friendly solutions that are designed with state-of the-art treatment technology to meet all water and wastewater regulatory standards but also, blend into the surrounding landscape as unobtrusively as possible and 4). meeting the needs of developers to deliver successful residential and commercial projects with affordable utility user rates for their, and ultimately our, customers.

Our highly skilled personnel have made improvements in recent years in developing preventive maintenance programs to ensure sustained water quality and pressures. As we further implement new technology, we expect more improvements in quality and cost-effectiveness of these critical functions.

Sustainability of Utility Services

The "sustainability" of vital resources is a term that has captured substantial attention in national and local forums during 2008. We have seen considerable interest by governing bodies, at all levels, in ensuring the sustainability of our natural resources and in preserving the continued ability to meet critical infrastructure needs and deliver vital

We invest in projects to upgrade and maintain our infrastructure to ensure safe, plentiful drinking water for residential, commercial, industrial and fire protection purposes. We regularly examine our processes, operations and technology to ensure efficient management of our water resources.

In constructing utility infrastructure, we work with developers and local government to establish growth where it is desired. This regional wastewater treatment facility utilizes treatment technology that recharges the groundwater aquifer while enhancing the quality of life for area residents.

EPA WaterSense PARTNER

Middlesex Water has teamed with the U.S. Environmental Protection Agency's WaterSense® program to help consumers save water for future generations through the use of water-efficient products and simple water-saving practices. As an EPA WaterSense partner, and through our outreach efforts, we are working to improve awareness that protecting and preserving our nation's energy and water supplies is critical to our economy, our environment and our quality of life.

utility services. The concept of sustainability has always been an ongoing aspect of Middlesex Water Company's business; from strategic planning for infrastructure needs to capital investment, to rate recovery of those investments, to day-to day operations and maintenance, to customer education advocating wise water use, etc. As our water and wastewater infrastructure continues to age and grow, the quality of our programs in these various areas is critical to ensuring our ability to meet the needs of current and future customers. We believe that managing all of our resources with an appropriate focus on the impact to our environment not only serves the greater good now, but also enables us to sustain the reliability of operations well into the future, which is integral to our ongoing ability to meet shareholder expectations for growth and profitability.

Our commitment to maintaining sustainable utility services was publicly acknowledged in several ways during 2008. In March, Middlesex Water Company was named one of America's "Top 100 Most Trustworthy Publicly-Owned Companies" by Audit Integrity Inc. for transparency in our corporate governance and financial reporting. We were honored as "Outstanding Green Business of the Year" by the Edison, New Jersey Chamber of Commerce for our commitment to alternative energy in the water treatment process. Our Delaware operations were voted "Best in the Business" in a survey conducted by the Delaware News Journal. We participated in various public events as speakers and facilitators to promote the important role our company and others play in maintaining the sustainability of our resources and our utility services. These honors and activities simply highlight our commitment to operational and financial integrity which clearly are important contributors to continued improvements in shareholder value.

Leveraging Technology

Middlesex Water Company, along with the water and wastewater industries in general, is employing new technologies to help ensure the sustainability of our water supplies, the quality of wastewater effluent that is returned to the environment and the overall efficiency of our business. An important component of our ongoing capital program is the periodic evaluation of the benefits of various technology options. As we upgrade or replace existing infrastructure and construct new facilities, we consider the different technologies available to us to ensure we are achieving a sound balance between the environmental impact and the cost-effectiveness of each project. This approach enables us to meet all environmental regulatory requirements while also maximizing the opportunity to deliver cost-effective solutions that translate into reasonable rates to our customers and consequently, reasonable investment returns for our shareholders.

The Company was named "Outstanding Green Business" in 2008 for its commitment to renewable energy and its role as an environmental steward.

Our new technology platform will impact all business areas including Customer Care and Billing, Human Resources, Asset Management and Accounts Payable. Integrating Mobile Workforce Management will ensure a tighter link between customer service requests and field work.

In 2008, Middlesex Water Company was named one of **America's Top 100 Most Trustworthy Companies** for accounting practices and corporate governance according to Audit Integrity, an independent Los Angeles firm that researches corporate governance best practices. Middlesex was one of four utilities to make the 2008 Audit Integrity Top 100 list and ranked 6th among small-cap companies.

audit integrity

The following examples from 2008 highlight our continued efforts to leverage technology:

Building on the consolidation of our Delaware and New Jersey customer call centers into a single location in 2007, we completed a conversion in 2008 to a new telephone system with standardized technology across Delaware and New Jersey. This change helps measure call center activity which maximizes our ability to respond to customers needs, facilitates more efficient communications within our company and provides us with a greater ability to measure our performance. As we continue to grow the business into different geographic areas, this standardized approach will be critical in our implementation of replicable business processes.

We completed the first phase of a multi-year meter reading technology project. We are implementing new meter reading software to further accelerate our automated meter reading capabilities. This project requires retrofitting existing meter equipment and installing new devices within customers' homes. New installations are being made to accommodate an ultimate move to automated meter reading.

We continue to focus on improving end-to-end business processes through our Enterprise Resource Planning (ERP) system implementation which began in 2008 and will continue throughout 2009. ERP technology will automate many tasks which are currently performed manually. In addition, the ERP system will provide better measurement tools and help streamline our business processes for more effective service delivery. This is expected to result in improvements in the quality of customer service and in overall reductions in the cost of delivering service.

Achieving Results through Dedicated Professionals

Our employees have made significant contributions throughout 2008 to the progress and successes described above. We are implementing innovative changes in various aspects of our business and continue to challenge our employees daily to deliver their personal best for the benefit of our customers and our shareholders. Our employees handle numerous priorities, from improving business processes, to performing their day-to-day operations, with a constant focus on enhancing the quality of service. We are grateful for their commitment, skill and personal sacrifice without which our successes would not be possible.

We were saddened by the recent passing of Stephen H. Mundy, a member of the Board of Directors for over 30 years. Mr. Mundy was a nephew of Ambrose Mundy, the Company's third president. His wisdom and counsel as a Board member has been a vital part of the Company's development and expansion. We extend our heartfelt sympathies to his family as well as our gratitude for his years of dedicated service.

As Middlesex Water Company continues to evolve to meet the needs of present and future customers, we hope you share our enthusiasm for the successes we have achieved and for the exciting plans we have in place to develop further value for our shareholders. We recognize the challenges all companies are facing with respect to our national economy but we remain confident that your company will effectively weather these cyclical challenges, as we have for 112 years. Thank you for your continued confidence and support.

J. Richard Tompkins
Chairman of the Board

Dennis W. Doll
President and Chief Executive Officer

Championing Sustainability Initiatives

Mixed Sources
Product group from well-managed forests and other controlled sources
www.fsc.org Cert no. SGS-COC-005547
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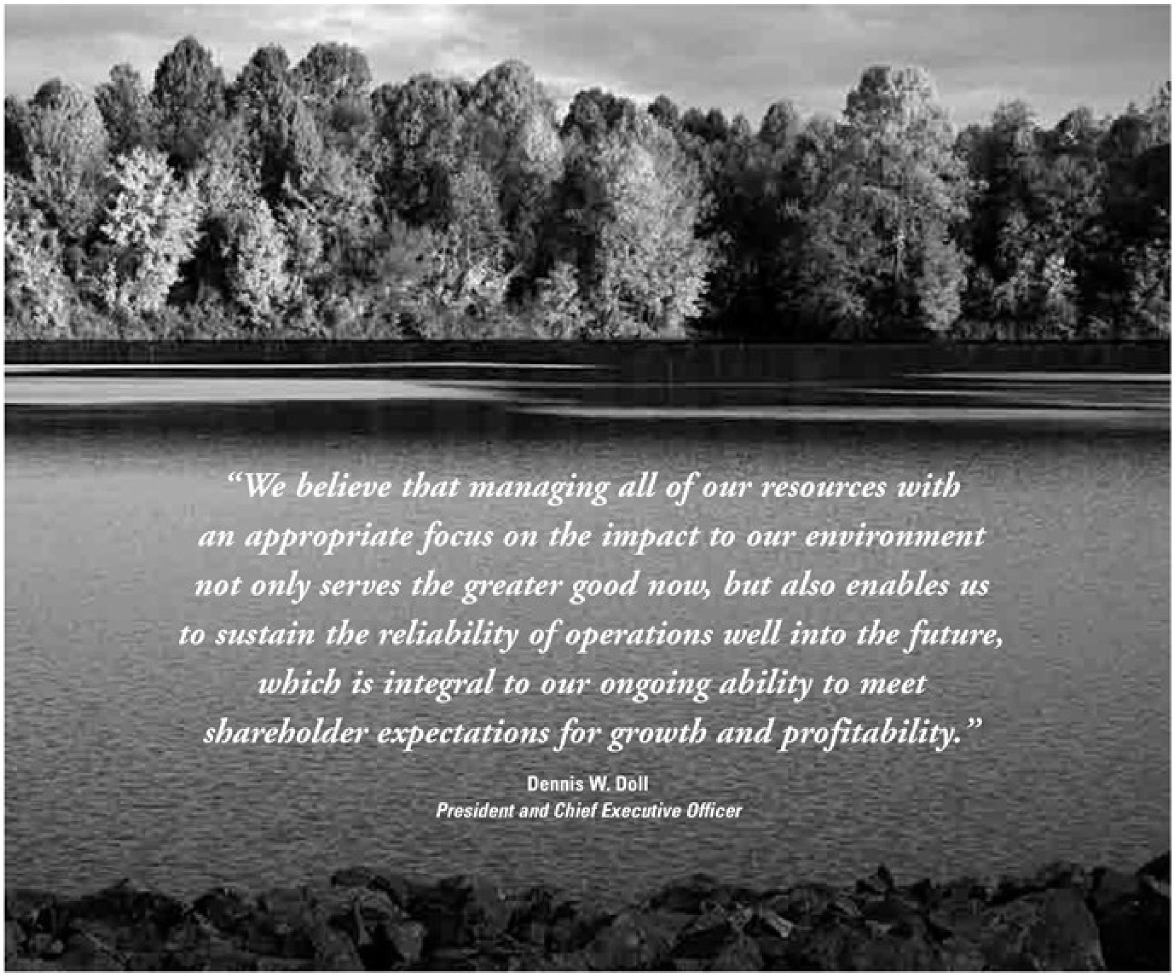
FSC

This Annual Report was printed using environmentally friendly soy-based inks and FSC certified paper.

We're working to preserve natural resources for future generations in the following ways:

- Practicing responsible water and wastewater management practices
- Utilizing renewable energy
- Implementing measures to reduce paper (online bill payment, Internet availability of Annual Meeting materials)
- Promoting wastewater strategies that help replenish groundwater aquifers
- Recycling efforts
- Our RENEW Program, which results in fewer main breaks, less energy demand on our pumps and less water loss
- Educating our customers about wise water use
- Helping developers maximize density in regional water planning



MIDDLESEX WATER COMPANY

Middlesex Water Company 2008 Annual Report Financial Data

CONSOLIDATED SELECTED FINANCIAL DATA

(In Thousands, Except per Share Amounts)	2008	2007	2006	2005	2004
Operating Revenues	**$ 91,038**	$ 86,114	$ 81,061	$ 74,613	$ 70,991
Operating Expenses:					
Operations and Maintenance	**48,929**	46,240	43,345	42,156	39,984
Depreciation	**7,922**	7,539	7,060	6,460	5,846
Other Taxes	**10,168**	9,664	9,338	8,779	8,228
Total Operating Expenses	**67,019**	63,443	59,743	57,395	54,058
Operating Income	**24,019**	22,671	21,318	17,218	16,933
Other Income, Net	**1,302**	1,527	774	740	795
Interest Charges	**7,057**	6,619	7,012	6,245	5,468
Income Taxes	**6,056**	5,736	5,041	3,237	3,814
Net Income	**12,208**	11,843	10,039	8,476	8,446
Preferred Stock Dividend	**218**	248	248	251	255
Earnings Applicable to Common Stock	**$ 11,990**	$ 11,595	$ 9,791	$ 8,225	$ 8,191
Earnings per Share:					
Basic	**$ 0.90**	$ 0.88	$ 0.83	$ 0.72	$ 0.74
Diluted	**$ 0.89**	$ 0.87	$ 0.82	$ 0.71	$ 0.73
Average Shares Outstanding:					
Basic	**13,317**	13,203	11,844	11,445	11,080
Diluted	**13,615**	13,534	12,175	11,784	11,423
Dividends Declared and Paid	**$ 0.703**	$ 0.693	$ 0.683	$ 0.673	$ 0.663
Total Assets	**$440,000**	$392,675	$370,267	$324,383	$305,634
Convertible Preferred Stock	**$ 2,273**	$ 2,856	$ 2,856	$ 2,856	$ 2,961
Long-term Debt	**$118,217**	$131,615	$130,706	$128,175	$115,281

STATISTICAL SUMMARY

REVENUES (Thousands of Dollars):	2008	2007	2006	2005	2004
Residential	**$ 41,049**	$ 38,792	$ 34,584	$ 31,289	$ 28,322
Commercial	**8,786**	8,358	8,107	7,297	6,771
Industrial	**8,511**	8,513	8,659	8,183	7,708
Fire Protection	**9,461**	8,882	8,635	7,742	7,237
Contract Sales	**11,892**	10,749	9,937	10,024	9,086
Contract Operations	**9,539**	8,832	8,878	8,082	7,934
Other	**1,800**	1,988	2,261	1,996	3,933
TOTAL REVENUES	**$ 91,038**	$ 86,114	$ 81,061	$ 74,613	$ 70,991
CAPITALIZATION RATIOS:					
Long-term Debt	**49%**	50%	50%	55%	54 %
Preferred Stock	**1**	1	1	2	2
Common Stock Equity	**50**	49	49	43	44
TOTAL	**100%**	100 %	100 %	100 %	100%
OTHER:					
Book Value of Common Stock	**$ 10.13**	$ 9.87	$ 8.86	$ 8.36	$ 7.99
Customers	**137,300**	132,000	125,200	119,800	115,000
Population Served (Retail)	**451,500**	434,600	421,400	407,500	400,000
Miles of Main	**1,376**	1,343	1,306	1,250	1,215
Fire Hydrants	**7,642**	7,216	6,821	6,595	6,306
Water Production (million gallons)	**20,949**	21,731	20,594	21,196	20,344

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

Middlesex Water 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 and distributing water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate a New Jersey municipal water and wastewater system under contract and provide wastewater services in New Jersey and Delaware through our subsidiaries. We are regulated as to rates charged to customers for water and wastewater services, as to the quality of water service we provide and as to certain other matters in New Jersey and in Delaware. Only our USA, USA-PA and White Marsh subsidiaries are not regulated utilities.

In the design of water and wastewater systems that we ultimately intend to construct, own and operate, we invest capital in Preliminary Survey and Investigation (PS&I) activities. These costs are recorded as a deferred asset on the balance sheet in anticipation of recovery of and a return on, these costs through future rates charged to customers, as these investments are placed into service as utility plant. Our future capital expenditures are discussed in more detail in the Liquidity and Capital Resources Section below.

Our New Jersey water utility system (the Middlesex System) provides water services to approximately 59,700 retail customers, primarily in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey with a total population of approximately 303,000. In partnership with our subsidiary, USA-PA, we operate the water supply system and wastewater system for the City of Perth Amboy, New Jersey. Our other New Jersey subsidiaries, Pinelands Water and Pinelands Wastewater, provide water and wastewater services to residents in Southampton Township, New Jersey.

Our Delaware subsidiaries, Tidewater and Southern Shores, provide water services to approximately 35,500 retail customers in New Castle, Kent and Sussex Counties, Delaware. Our TESI subsidiary provides wastewater services to approximately 1,800 residential retail customers. Our other Delaware subsidiary, White Marsh, services an additional 7,200 customers in Kent and Sussex Counties through 68 operations and maintenance contracts.

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

We expect the growth of our regulated wastewater operations in Delaware will eventually become a more significant component of our operations.

In September 2008, we entered into an agreement to own and operate a water and wastewater facility system that is expected to serve 1,500 people in North Carolina. Planning is under way to gain approval from the North Carolina Public Service Commission to operate these systems as regulated public utilities, which are expected to be ready to serve customers during the third quarter of 2009.

On January 26, 2009 Tidewater filed an application with the PSC seeking permission to increase its base rates by 32.54%. Approximately 5.25% of the requested increase is already collected from customers through a separately

PSC-approved rate called a Distribution System Improvement Charge (DSIC). The request was made necessary by increased costs of operations, maintenance and taxes, as well as capital investment of approximately $26.7 million since its last rate filing in April of 2006. 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 12.79% interim rate increase subject to refund as allowed under PSC regulations. The interim rate increase includes the 5.25% DSIC rate. If approved by the PSC, the interim rates of 12.79% will go into effect on March 27, 2009 and the DSIC rate will be set to zero.

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

Operating Results by Segment

The Company has two operating segments, Regulated and Non-Regulated. Our Regulated segment contributed 89%, 90% and 89% of total revenues, and 90%, 94% and 94% of net income for the years ended December 31, 2008, 2007 and 2006, respectively. The discussion of the Company's results of operations is on a consolidated basis, and includes significant factors by subsidiary. The segments in the tables included below are comprised of the following companies: Regulated- Middlesex, Tidewater, Pinelands, Southern Shores, and TESI; Non-Regulated- USA, USA-PA, and White Marsh.

RESULTS OF OPERATIONS IN 2008 COMPARED TO 2007

	Years Ended December 31, (Millions of Dollars)					
	2008			2007		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	**$81.1**	**$9.9**	**$91.0**	$77.1	$9.0	$86.1
Operations and maintenance	**41.2**	**7.7**	**48.9**	38.8	7.4	46.2
Depreciation	**7.8**	**0.1**	**7.9**	7.4	0.1	7.5
Other taxes	**10.0**	**0.2**	**10.2**	9.5	0.2	9.7
Operating income	**22.1**	**1.9**	**24.0**	21.4	1.3	22.7
Other income (expense)	**0.9**	**0.4**	**1.3**	1.5	—	1.5
Interest expense	**7.0**	**0.1**	**7.1**	6.6	—	6.6
Income taxes	**5.0**	**1.0**	**6.0**	5.2	0.6	5.8
Net income	**$11.0**	**$1.2**	**$12.2**	$11.1	$0.7	$11.8

Operating revenues for the year rose $4.9 million, or 5.7% over the same period in 2007. Revenues in our Middlesex system increased $4.2 million as a result of a 9.1% base rate increase implemented October 26, 2007. Middlesex revenues decreased $1.1 million due to lower consumption by our customers during 2008. Water sales improved $0.8 million in our Delaware water systems. We recorded additional revenue of $1.2 million as a result of an additional 12% base rate increase that was granted to Tidewater February 28, 2007, and Distribution System Improvement Charge (DSIC) rate increases of 1.62% and 2.94% that went into effect January 1, 2008 and July 1, 2008, respectively. DSIC is a PSC approved rate that allows water utilities to recover their investment in non-revenue producing capital improvements to the water system in between base rate increase requests. Fees charged for initial connection to our Delaware Water system were $0.4 million lower in 2008 as new residential and commercial development has slowed in our Delaware service territories. USA-PA's fees for managing the Perth Amboy water and wastewater systems were $0.5 million higher than the same period in 2007, due mostly to scheduled increases in the fixed fee component of the contract. Revenues from our regulated wastewater operations in Delaware increased $0.2 million due to customer growth. All other operations accounted for $0.3 million of additional revenues.

While we anticipate continued organic customer and consumption growth among our Delaware systems, such growth and increased consumption cannot be guaranteed. The impact of the national economic recession has been to reduce the level of activity in the new residential housing market in our Delaware service territories. In addition, our water systems are highly dependent on the effects of weather, which may adversely impact future consumption despite customer growth. Appreciable organic customer and consumption growth is less likely in our New Jersey systems due to the extent to which our service territory is developed. The Company expects its 2009 Tidewater operating revenues to reflect the benefit of the DSIC rate increase effective January 1, 2009 and interim rate increase expected to be go into effect in late March 2009. There can be no assurances that the PSC will accept, reject or amend the level of the interim rate increase request.

Operation and maintenance expenses increased $2.7 million, or 5.8%. Even though 2008 water production was lower than 2007 in our Middlesex and Tidewater systems, our expenses increased $0.3 million due to higher costs for water, electric power and chemicals. Labor and benefits costs increased $1.3 million, which includes $0.7 million recognized for employee benefits due to market fluctuations in the cash surrender value of life insurance policies. The costs to operate our regulated wastewater facilities in Delaware increased $0.3 million due to acquisition of the Milton, Delaware municipal wastewater system during 2007 and an increased number of wastewater treatment facilities in operation in Delaware. Costs for service claims under our LineCareSM program were $0.1 million higher due in part to a 9.4% increase in the number of subscribers in the program during 2008. Operating costs for USA-PA increased $0.3 million due to higher pass-through charges. All other expense categories increased $0.4 million.

Depreciation expense for 2008 increased by $0.4 million, or 5.1%, due to a higher level of utility plant in service.

Other taxes increased by $0.5 million generally reflecting additional taxes on higher taxable gross revenues, payroll and real estate.

Other income was $0.2 million lower than 2007, primarily due to one-time gains recorded in 2007 on two transactions related to assets no longer used in our operations.

Interest expense increased by $0.4 million, or 6.6%, as a result of a higher level of average short-term debt outstanding when compared to 2007.

Income tax expense based on our current year operating results was $0.2 million higher than 2007 and reflects increased revenues due to higher water rates in New Jersey and Delaware.

Net income increased to $12.2 million from $11.8 million in the prior year, and basic earnings per share increased from $0.88 to $0.90. Diluted earnings per share increased from $0.87 to $0.89.

RESULTS OF OPERATIONS IN 2007 COMPARED TO 2006

	Years Ended December 31, (Millions of Dollars)					
	2007			2006		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	$77.1	$9.0	$86.1	$71.9	$9.2	$81.1
Operations and maintenance	38.8	7.4	46.2	35.7	7.7	43.4
Depreciation	7.4	0.1	7.5	7.0	0.1	7.1
Other taxes	9.5	0.2	9.7	9.1	0.2	9.3
Operating income	21.4	1.3	22.7	20.1	1.2	21.3
Other income (expense)	1.5	—	1.5	0.9	(0.1)	0.8
Interest expense	6.6	—	6.6	7.0	—	7.0
Income taxes	5.2	0.6	5.8	4.6	0.5	5.1
Net income	$11.1	$0.7	$11.8	$9.4	$0.6	$10.0

Operating revenues for the year rose $5.0 million, or 6.2% over the same period in 2006. Revenues improved by $3.7 million in our Tidewater System, of which $2.4 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 $1.9 million of increased revenues. Our Tidewater System experienced record water production and consumption billed due to extended favorable weather during the spring and summer. Fees charged to new customers for initial connection to our Delaware water systems were lower by $0.6 million as new residential and commercial development has slowed in our Delaware service territories. Revenues in our Middlesex system increased by $0.7 million as a result of a 9.1% base rate increase implemented on October 26, 2007. Middlesex revenues also increased by $0.3 million due to increased sales to our contract customers. TESI revenues increased by $0.3 million, as we connected new customers to our existing and new wastewater systems in Delaware.

Operation and maintenance expenses increased $2.8 million, or 6.5%. Labor costs were $1.3 million higher due to wage increases and increased headcount to meet the needs of the growing Delaware customer base, risk management, training and safety. As expected, electric generation costs for our Middlesex system increased due to the renewal in late 2006 of our contract with the power purveyor. That factor accounted for most of the $0.6 million in additional power costs. Pumping and water treatment costs increased a combined $0.2 million due to higher costs for chemicals and disposal of residuals. Costs for water main breaks in our New Jersey system and transportation fuel were $0.2 million higher than the same period in 2006 due to the number and size of the breaks and higher gasoline prices. The cost to operate our TESI regulated wastewater facilities in Delaware increased by $0.2 million as we acquired the Milton, Delaware wastewater system during the year. All other operating costs increased by $0.3 million.

Depreciation expense for 2007 increased by $0.4 million, or 5.6%, due to a higher level of utility plant in service.

Other taxes increased by $0.4 million generally reflecting additional taxes on higher taxable gross revenues, payroll and real estate.

Other income increased $0.7 million, primarily due to a gain of $0.2 million on the sale of non-utility real property in New Jersey and a gain of $0.4 million on the sale of certain water service rights in Delaware.

Interest expense decreased by $0.4 million, or 5.7%, as a result of a lower level of average short-term debt outstanding when compared to 2006.

Income tax expense based on our current year operating results was $0.9 million higher than 2006 and reflects the increased revenues due to higher water rates in New Jersey and Delaware, the record customer usage in Delaware and the sale of non-essential assets. This was partially offset by $0.2 million of solar tax credits recorded during 2007.

Net income increased to $11.8 million from $10.0 million in the prior year, and basic earnings per share increased from $0.83 to $0.88. Diluted earnings per share increased from $0.82 to $0.87.

Outlook

In addition to factors previously discussed under "Results of Operations in 2008 Compared to 2007," our revenues are expected to increase in 2009 from rate increases granted to our Pinelands companies in December 2008. Middlesex has filed a petition with the BPU to implement a purchased water adjustment clause (PWAC) seeking recovery of $1.0 million of additional costs associated with rate increases from two non-affiliated water purveyors for our purchases of treated and untreated water. There can be no assurances that the BPU will grant the PWAC in whole or in part.

Revenues and earnings will also be influenced by weather. Changes in these factors, as well as increases in capital expenditures and operating costs are the primary factors that determine the need for rate increase filings. We continue to implement viable plans to streamline operations and reduce operating costs.

We expect our level of borrowing to increase during 2009 in order to finance a portion of our capital expenditures during the coming year (see Liquidity and Capital Resources). However, current interest rates on short-term borrowings are significantly below the rates at which we borrowed during much of 2008. We believe those lower interest rates will continue during 2009 and will result in lower interest expense.

The actual return on assets held in our retirement benefit plans during 2008 resulted in a decline in the amount available to fund current and future obligations. We expect this will result in higher benefits expenses and increased cash contributions to the plans in 2009.

As a result of ongoing delays in new residential home construction throughout the service territories we serve, there may be an increase in the amount of PS&I that will not be currently recoverable in rates.

Our strategy includes continued revenue growth through acquisitions, internal expansion, contract operations and when necessary, rate relief. We will continue to pursue opportunities in both the regulated and non-regulated sectors that are financially sound, complement existing capabilities and increase shareholder value.

Liquidity and Capital Resources

Cash flows from operations are largely based on three factors: weather, adequate and timely rate increases, and customer growth. The effect of those factors on net income is discussed in results of operations. For 2008, cash flows from operating activities increased $0.3 million to $19.1 million, as compared to the prior year. This increase was primarily attributable to higher net income and depreciation. The $19.1 million of net cash flow from operations enabled us to fund approximately 67% of our utility plant expenditures for the period internally, with the remainder funded with proceeds from equity issued under our Dividend Reinvestment Plan, long-term borrowings and short-term borrowings.

For 2007, cash flows from operating activities increased $2.7 million to $18.8 million, as compared to the prior year. This increase was primarily attributable to higher net income and depreciation. The $18.8 million of net cash flow from operations enabled us to fund approximately 86% of our utility plant expenditures for the period internally, with the remainder funded with proceeds from equity issued under our Dividend Reinvestment Plan, long-term borrowings and short-term borrowings.

Increases in certain operating costs will impact our liquidity and capital resources. As described in our results of operations and outlook discussions, during 2008 we received rate relief for Tidewater and Pinelands and have filed for rate increases for Middlesex and Tidewater. We continually monitor the need for timely rate filing to minimize the lag between the time we experience increased operating and capital costs and the time we receive appropriate rate relief. There is no certainty, however, that the BPU or PSC will approve any or all future requested increases.

Sources of Liquidity

Short-term Debt. The Company had established lines of credit aggregating $36.0 million as of December 31, 2008, and increased the established amount to $50.0 million in February 2009. At December 31, 2008, the outstanding borrowings under these credit lines was $25.9 million at a weighted average interest rate of 2.30%.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were $16.4 million and $2.6 million at 3.69% and 6.36% for the years ended December 31, 2008 and 2007, respectively.

Long-term Debt. Subject to regulatory approval, the Company periodically finances capital projects under State Revolving Fund (SRF) loan programs in New Jersey and Delaware. These government programs provide financing at interest rates that are typically below rates available in the broader financial markets. A portion of the borrowings under the New Jersey SRF is interest-free. We participated in the Delaware and New Jersey SRF loan programs during 2008 and expect to participate in the 2009 New Jersey SRF program for up to $4.0 million.

During 2008, Middlesex closed on $3.5 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust (NJEIT) under the New Jersey SRF loan program in order to finance our 2009 RENEW program. The proceeds of these bonds, and any interest earned, are held by a trustee, and are classified as Restricted Cash on the Consolidated Balance Sheet.

Substantially all of the Utility Plant of the Company is subject to the lien of its mortgage, which includes debt service and capital ratio covenants. The Company is in compliance with all of its mortgage covenants and restrictions.

Common Stock. The Company periodically issues shares of common stock in connection with its Dividend Reinvestment and Common Stock Purchase Plan (the Plan). The Company raised $1.2 million through the issuance of shares under the Plan during 2008. Periodically, the Company may issue additional equity to reduce short-term indebtedness and for other general corporate purposes. The last public offering of our common stock closed in November 2006. The majority of the net proceeds of approximately $26.2 million from that common stock offering of 1.5 million shares were used to repay all of the Company's short-term borrowings outstanding at that time.

Capital Expenditures and Commitments

Under our capital program for 2009, we plan to expend $10.0 million for additions and improvements for our Delaware water systems, which include the construction of several storage tanks and the creation of new wells and interconnections. We expect to spend approximately $1.0 million for construction of wastewater systems in Delaware. We expect to spend $5.2 million to complete the implementation of a Company-wide information system and $0.9 million for other information systems equipment and software. We expect to spend $3.5 million for our RENEW program, which is our program to clean and cement line unlined mains in the Middlesex System. There remains a total of approximately 109 miles of unlined mains in the 730-mile Middlesex System. In 2008, three miles of unlined mains were cleaned and cement lined. The capital program also includes $12.4 million for scheduled upgrades to our existing systems in New Jersey. The scheduled upgrades consist of $4.0 million for improvements to existing plant, $5.8 million for mains, $0.9 million for service lines, $0.7 million for meters, $0.3 million for hydrants, and $0.8 million for other infrastructure needs.

To pay for our capital program in 2009, we will utilize internally generated funds and funds available and held in trust under existing NJEIT loans (currently, $4.5 million) and Delaware SRF loans (currently, $1.9 million). The SRF programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks. If necessary, we will also utilize short-term borrowings through $50.0 million of available lines of credit with several financial institutions. As of December 31, 2008, we had $25.9 million outstanding against the lines of credit.

Going forward into 2010 through 2011, we currently project that we may be required to expend between $65.0 million and $91.2 million for capital projects. The exact amount is dependent on customer growth, residential housing sales and project scheduling. In particular, Middlesex had filed a prudence review application with the BPU for a proposed major transmission pipeline designed to strengthen its existing transmission network and provide further system reliability. Initial estimates to construct the pipeline are $26.2 million. A settlement amongst the parties in the prudence review was approved by the BPU on October 23, 2008. As part of the settlement, it was agreed the pipeline is needed but will not be constructed at this time. The parties further agreed that it would be effective utility management and proper long-term planning for the Company to proceed with the procurement of easements along the agreed-upon pipeline route in anticipation of a need for the project as customer demand for water increases in the South River Basin portion of our customer base.

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

Contractual Obligations

In the course of normal business activities, the Company enters into a variety of contractual obligations and commercial commitments. Some of these items result in direct obligations on the Company's balance sheet while others are commitments, some firm and some based on uncertainties, which are disclosed in the Company's other underlying consolidated financial statements.

The table below presents our known contractual obligations for the periods specified as of December 31, 2008.

		Payments Due by Period (*Millions of Dollars*)			
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Long-term Debt	$ 136.0	$ 18.0	$ 6.8	$ 7.0	$ 104.2
Notes Payable	25.9	25.9	—	—	—
Interest on Long-term Debt	93.4	5.8	10.9	10.3	66.4
Purchased Water Contracts	41.9	4.9	7.8	4.9	24.3
Wastewater Operations	47.6	4.2	8.7	9.3	25.4
Employee Retirement Plans [1]	5.6	5.6	—	—	—
Total	$ 350.4	$ 64.4	$ 34.2	$ 31.5	$ 220.3

[1] *Amount not determinable after one year.*

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. Under the agreement, USA-PA receives a fixed fee and a variable fee based on increased system billing. Scheduled fixed fee payments were $8.0 million in 2008 and will increase over the term of the contract to $10.2 million by the end of the contract.

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 December 31, 2008, approximately $21.4 million of the Series C Serial Bonds remained outstanding.

We are 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 the water and wastewater services as well as rate increases 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.

Critical Accounting Policies and Estimates

The application of accounting policies and standards often requires the use of estimates, assumptions and judgments. Changes in these variables may lead to significantly different financial statement results. Our critical accounting policies are set forth below.

Regulatory Accounting
We maintain our books and records in accordance with accounting principles generally accepted in the United States of America. Middlesex and certain of its subsidiaries, which account for 89% of Operating Revenues and 98% of Total Assets, are subject to regulation in the states in which they operate. Those companies are required to maintain their accounts in accordance with regulatory authorities' rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance provided in the Financial Accounting Standards Board (FASB), Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting For the Effects of Certain Types of Regulation" (SFAS 71).

In accordance with SFAS No. 71, costs and obligations are deferred if it is probable that these items will be recognized for rate-making purposes in future rates. Accordingly, we have recorded costs and obligations, which will be amortized over various future periods. Any change in the assessment of the probability of rate-making treatment will require us to change the accounting treatment of the deferred item. We have no reason to believe any of the deferred items that are recorded would be treated differently by the regulators in the future.

Revenues
Revenues from metered customers include amounts billed on a cycle basis and unbilled amounts estimated from the last meter reading date to the end of the accounting period. The estimated unbilled amounts are determined by utilizing factors which include historical consumption usage and current climate conditions. Differences between estimated revenues and actual billings are recorded in a subsequent period.

Revenues from unmetered customers are billed at a fixed tariff rate in advance at the beginning of each service period and are recognized in revenue ratably over the service period.

Revenues from the Perth Amboy management contract are comprised of fixed and variable fees. Fixed fees, which have been set for the life of the contract, are billed monthly and recorded as earned. Variable fees, which are based on billings and other factors and are not significant, are recorded upon approval of the amount by Perth Amboy.

Pension Plan
We maintain a noncontributory defined benefit pension plan which covers substantially all employees with more than 1,000 hours of service and who were hired prior to March 31, 2007.

The discount rate utilized for determining future pension obligations has increased from 5.89% at December 31, 2006 to 6.59% at December 31, 2007 and decreased to 6.17% at December 31, 2008. Lowering the discount rate by 0.5% would have increased the net periodic pension cost by $0.2 million in 2008. Lowering the expected long-term rate of return on the pension plans by 0.5% (from 8.0% to 7.5%) would have increased the net periodic pension cost in 2008 by approximately $0.1 million.

The discount rate for determining future pension obligations is determined based on market rates for long-term, high-quality corporate bonds at our December 31 measurement date. The expected long-term rate of return for pension assets is determined based on historical returns and our asset allocation.

Future pension expense will depend on future investment performance, changes in future discount rates and various other demographic factors related to the population participating in the pension plan.

Recent Accounting Standards

See Note 1(m) of the Notes to Consolidated Financial Statements for a discussion of recent accounting pronouncements.

Qualitative and Quantitative Disclosures About Market Risk.

The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2009 to 2038. Over the next twelve months, approximately $18.0 million of the current portion of 24 existing long-term debt instruments will mature. Applying a hypothetical change in the rate of interest charged by 10% on those borrowings, would not have a material effect on our earnings.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Middlesex Water Company (Middlesex or the Company) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13A-15(f) and 15d-15(f). Middlesex's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors of adequate preparation and fair presentation of the published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the adequacy of financial statement preparation and presentation. Middlesex's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment, we believe that as of December 31, 2008, the Company's internal control over financial reporting is operating as designed and is effective based on those criteria.

Middlesex's independent registered public accounting firm has audited the effectiveness of our internal control over financial reporting as of December 31, 2008 as stated in their report which is included herein.

Dennis W. Doll	A. Bruce O'Connor
President and	*Vice President and*
Chief Executive Officer	*Chief Financial Officer*

Iselin, New Jersey
March 13, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Middlesex Water Company

We have audited Middlesex Water Company's (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and consolidated statements of capital stock and long-term debt of the Company as of December 31, 2008 and 2007 and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008. Our report dated March 13, 2009 expressed an unqualified opinion on these consolidated financial statements.

Beard Miller Company LLP

Beard Miller Company LLP
Reading, Pennsylvania
March 13, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Middlesex Water Company

We have audited the accompanying consolidated balance sheets and consolidated statements of capital stock and long-term debt of Middlesex Water Company and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Middlesex Water Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integral Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 13, 2009 expressed an unqualified opinion.

Beard Miller Company LLP

Beard Miller Company LLP
Reading, Pennsylvania
March 13, 2009

CONSOLIDATED BALANCE SHEETS

(In thousands)

		December 31, 2008	2007
ASSETS			
UTILITY PLANT:	Water Production	**$107,517**	$ 98,942
	Transmission and Distribution	**283,759**	264,939
	General	**27,142**	24,874
	Construction Work in Progress	**11,653**	9,833
	TOTAL	**430,071**	398,588
	Less Accumulated Depreciation	**70,544**	64,736
	UTILITY PLANT - NET	**359,527**	333,852
CURRENT ASSETS:	Cash and Cash Equivalents	**3,288**	2,029
	Accounts Receivable, net	**9,510**	8,227
	Unbilled Revenues	**4,822**	4,609
	Materials and Supplies (at average cost)	**1,475**	1,205
	Prepayments	**1,481**	1,363
	TOTAL CURRENT ASSETS	**20,576**	17,433
DEFERRED CHARGES AND OTHER ASSETS:	Unamortized Debt Expense	**2,903**	2,884
	Preliminary Survey and Investigation Charges	**7,187**	5,283
	Regulatory Assets	**31,910**	16,090
	Operations Contracts Fees Receivable	**3,708**	4,184
	Restricted Cash	**7,049**	6,418
	Non-utility Assets - Net	**6,762**	6,183
	Other	**378**	348
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	**59,897**	41,390
	TOTAL ASSETS	**$440,000**	$392,675
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	**$107,726**	$105,668
	Retained Earnings	**30,077**	27,441
	Accumulated Other Comprehensive Income, net of tax	**0**	69
	TOTAL COMMON EQUITY	**137,803**	133,178
	Preferred Stock	**3,375**	3,958
	Long-term Debt	**118,217**	131,615
	TOTAL CAPITALIZATION	**259,395**	268,751
CURRENT LIABILITIES:	Current Portion of Long-term Debt	**17,985**	2,723
	Notes Payable	**25,877**	6,250
	Accounts Payable	**5,689**	6,477
	Accrued Taxes	**7,781**	7,611
	Accrued Interest	**2,053**	1,916
	Unearned Revenues and Advanced Service Fees	**842**	758
	Other	**1,243**	1,274
	TOTAL CURRENT LIABILITIES	**61,470**	27,009
COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)			
DEFERRED CREDITS AND OTHER LIABILITIES:	Customer Advances for Construction	**22,089**	21,758
	Accumulated Deferred Investment Tax Credits	**1,382**	1,461
	Accumulated Deferred Income Taxes	**21,733**	17,940
	Employee Benefit Plans	**25,540**	13,333
	Regulatory Liability - Cost of Utility Plant Removal	**6,197**	5,726
	Other	**963**	459
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	**77,904**	60,677
CONTRIBUTIONS IN AID OF CONSTRUCTION		**41,231**	36,238
	TOTAL CAPITALIZATION AND LIABILITIES	**$440,000**	$392,675

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except per Share Amounts)	Years Ended December 31, 2008	2007	2006
OPERATING REVENUES	**$91,038**	$86,114	$81,061
OPERATING EXPENSES:			
Operations	**44,782**	42,117	39,799
Maintenance	**4,147**	4,123	3,546
Depreciation	**7,922**	7,539	7,060
Other Taxes	**10,168**	9,664	9,338
TOTAL OPERATING EXPENSES	**67,019**	63,443	59,743
OPERATING INCOME	**24,019**	22,671	21,318
OTHER INCOME (EXPENSE):			
Allowance for Funds Used During Construction	**667**	537	632
Other Income	**906**	1,153	160
Other Expense	**(271)**	(163)	(18)
TOTAL OTHER INCOME, NET	**1,302**	1,527	774
INTEREST CHARGES	**7,057**	6,619	7,012
INCOME BEFORE INCOME TAXES	**18,264**	17,579	15,080
INCOME TAXES	**6,056**	5,736	5,041
NET INCOME	**12,208**	11,843	10,039
PREFERRED STOCK DIVIDEND REQUIREMENTS	**218**	248	248
EARNINGS APPLICABLE TO COMMON STOCK	**$11,990**	$11,595	$ 9,791
Earnings per share of Common Stock:			
Basic	**$ 0.90**	$ 0.88	$ 0.83
Diluted	**$ 0.89**	$ 0.87	$ 0.82
Average Number of Common Shares Outstanding:			
Basic	**13,317**	13,203	11,844
Diluted	**13,615**	13,534	12,175
Cash Dividends Paid per Common Share	**$ 0.703**	$ 0.693	$ 0.683

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	2008	Years Ended December 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	**$12,208**	$11,843	$10,039
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities:			
Depreciation and Amortization	**8,530**	8,176	7,761
Provision for Deferred Income Taxes and ITC	**1,032**	399	897
Equity Portion of AFUDC	**(348)**	(255)	(259)
Cash Surrender Value of Life Insurance	**576**	(271)	(155)
Gain on Disposal of Equity Investments	**(86)**	—	—
Gain on Sale of Real Estate	**—**	(267)	—
Changes in Assets and Liabilities:			
Accounts Receivable	**(807)**	(2,752)	(463)
Unbilled Revenues	**(213)**	(596)	(276)
Materials & Supplies	**(270)**	101	(46)
Prepayments	**(118)**	(134)	(301)
Other Assets	**(351)**	(9)	(485)
Accounts Payable	**147**	986	(538)
Accrued Taxes	**206**	941	197
Accrued Interest	**137**	36	11
Employee Benefit Plans	**(1,146)**	239	(84)
Unearned Revenue & Advanced Service Fees	**84**	157	127
Other Liabilities	**(465)**	224	(299)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**19,116**	18,818	16,126
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility Plant Expenditures, Including AFUDC of $319 in 2008, $282 in 2007, and $373 in 2006	**(28,429)**	(21,930)	(30,734)
Restricted Cash	**(591)**	444	(1,036)
Proceeds from Real Estate Dispositions	**—**	273	—
Preliminary Survey & Investigation Charges	**(1,907)**	(1,847)	(1,661)
NET CASH USED IN INVESTING ACTIVITIES	**(30,927)**	(23,060)	(33,431)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of Long-term Debt	**(2,787)**	(2,501)	(1,915)
Proceeds from Issuance of Long-term Debt	**4,652**	3,632	5,016
Net Short-term Bank Borrowings	**19,627**	6,250	(4,000)
Deferred Debt Issuance Expenses	**(158)**	(50)	(28)
Common Stock Issuance Expense	**—**	(15)	(238)
Restricted Cash	**(40)**	(12)	(32)
Proceeds from Issuance of Common Stock	**1,475**	1,420	28,088
Payment of Common Dividends	**(9,353)**	(9,141)	(8,190)
Payment of Preferred Dividends	**(218)**	(248)	(248)
Construction Advances and Contributions-Net	**(128)**	1,110	1,694
NET CASH PROVIDED BY FINANCING ACTIVITIES	**13,070**	445	20,147
NET CHANGES IN CASH AND CASH EQUIVALENTS	**1,259**	(3,797)	2,842
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**2,029**	5,826	2,984
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 3,288**	$ 2,029	$ 5,826
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:			
Utility Plant received as Construction Advances and Contributions	**$ 5,452**	$ 8,960	$ 3,543
Transfer of Equity Investment to Employee Retirement Benefit Plans	**$ 132**	$ —	$ —
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:			
Cash Paid During the Year for:			
Interest	**$ 6,864**	$ 6,542	$ 6,937
Interest Capitalized	**$ (319)**	$ (282)	$ (373)
Income Taxes	**$ 5,205**	$ 4,534	$ 4,352

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CAPITAL STOCK AND LONG-TERM DEBT

(In thousands)	December 31, 2008	2007
Common Stock, No Par Value		
Shares Authorized - 40,000		
Shares Outstanding - 2008 - 13,404	**$107,726**	$105,668
2007 - 13,246		
Retained Earnings	**30,077**	27,441
Accumulated Other Comprehensive Income, net of tax	**—**	69
TOTAL COMMON EQUITY	**137,803**	133,178
Cumulative Preference Stock, No Par Value:		
Shares Authorized - 100		
Shares Outstanding - None		
Cumulative Preferred Stock, No Par Value:		
Shares Authorized - 2008 - 134; 2007 - 139		
Shares Outstanding - 2008 - 32; 2007 - 37		
Convertible:		
Shares Outstanding, $7.00 Series - 14	**1,457**	1,457
Shares Outstanding, $8.00 Series - 2008 - 7; 2007 - 12	**816**	1,399
Nonredeemable:		
Shares Outstanding, $7.00 Series - 1	**102**	102
Shares Outstanding, $4.75 Series - 10	**1,000**	1,000
TOTAL PREFERRED STOCK	**3,375**	3,958
Long-term Debt:		
8.05%, Amortizing Secured Note, due December 20, 2021	**2,695**	2,800
6.25%, Amortizing Secured Note, due May 22, 2028	**8,155**	8,575
6.44%, Amortizing Secured Note, due August 25, 2030	**6,067**	6,347
6.46%, Amortizing Secured Note, due September 19, 2031	**6,347**	6,627
4.22%, State Revolving Trust Note, due December 31, 2022	**657**	691
3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025	**3,689**	3,168
3.49%, State Revolving Trust Note, due January 25, 2027	**675**	603
4.03%, State Revolving Trust Note, due December 1, 2026	**939**	974
4.00% to 5.00%, State Revolving Trust Bond, due September 1, 2021	**660**	695
0.00%, State Revolving Fund Bond, due September 1, 2021	**500**	538
3.64% State Revolving Trust Note, due July 1, 2028	**389**	—
3.64% State Revolving Trust Note, due January 1, 2028	**140**	—
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	**538**	591
4.25% to 4.63%, Series Y, due September 1, 2018	**710**	765
0.00%, Series Z, due September 1, 2019	**1,230**	1,342
5.25% to 5.75%, Series AA, due September 1, 2019	**1,675**	1,785
0.00%, Series BB, due September 1, 2021	**1,566**	1,685
4.00% to 5.00%, Series CC, due September 1, 2021	**1,895**	1,995
5.10%, Series DD, due January 1, 2032	**6,000**	6,000
0.00%, Series EE, due September 1, 2024	**6,693**	7,112
3.00% to 5.50%, Series FF, due September 1, 2024	**8,025**	8,385
0.00%, Series GG, due August 1, 2026	**1,619**	1,710
4.00% to 5.00%, Series HH, due August 1, 2026	**1,880**	1,950
0.00%, Series II, due August 1, 2027	**1,708**	1,750
3.40% to 5.00%, Series JJ, due August 1, 2027	**1,750**	1,750
0.00%, Series KK, due August 1, 2028	**1,750**	—
5.00% to 5.50%, Series LL, due August 1, 2028	**1,750**	—
SUBTOTAL LONG-TERM DEBT	**136,202**	134,338
Less: Current Portion of Long-term Debt	**(17,985)**	(2,723)
TOTAL LONG-TERM DEBT	**$118,217**	$131,615

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(In thousands)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2006	11,584	$ 76,161	$ 23,638	$(207)	$ 99,592
Net Income			10,039		10,039
Minimum Pension Liability,					
Net of $135 Income Tax				262	262
Change in Value of Equity Investments,					
Net of $20 Income Tax				39	39
Comprehensive Income					10,340
Dividend Reinvestment &					
Common Stock Purchase Plan	70	1,321			1,321
Restricted Stock Award - Net	19	275			275
Preferred Stock Conversion	1,495	26,491			26,491
Cash Dividends on Common Stock			(8,190)		(8,190)
Cash Dividends on Preferred Stock			(248)		(248)
Common Stock Expense			(238)		(238)
Balance at December 31, 2006	13,168	104,248	25,001	94	129,343
Net Income			11,843		11,843
Change in Value of Equity Investments,					
Net of $13 Income Tax				(25)	(25)
Comprehensive Income					11,818
Dividend Reinvestment &					
Common Stock Purchase Plan	61	1,147			1,147
Restricted Stock Award - Net	17	273			273
Cash Dividends on Common Stock			(9,141)		(9,141)
Cash Dividends on Preferred Stock			(248)		(248)
Common Stock Expenses			(15)		(15)
Other			1		1
Balance at December 31, 2007	13,246	105,668	27,441	69	133,178
Net Income			12,208		12,208
Change in Value of Equity Investments,					
Net of $36 Income Tax				(69)	(69)
Comprehensive Income					12,139
Dividend Reinvestment &					
Common Stock Purchase Plan	67	1,187			1,187
Conversion of $8 Convertible Preferred Stock	69	583			583
Restricted Stock Award - Net	22	288			288
Cash Dividends on Common Stock			(9,353)		(9,353)
Cash Dividends on Preferred Stock			(218)		(218)
Other			(1)		(1)
Balance at December 31, 2008	**13,404**	**$107,726**	**$30,077**	**$ —**	**$137,803**

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

(a) Organization - Middlesex Water Company (Middlesex) 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.

Middlesex Water 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 domestic, commercial, municipal, industrial and fire protection purposes. We also operate a New Jersey municipal water and wastewater system under contract and provide wastewater services in New Jersey and Delaware through our subsidiaries. We are regulated as to rates charged to customers for water and wastewater services in New Jersey and Delaware, as to the quality of services we provide and as to certain other matters. Only our USA, USA-PA and White Marsh subsidiaries are not regulated utilities.

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

(b) System of Accounts - Middlesex, Pinelands Water and Pinelands Wastewater maintain their accounts in accordance with the Uniform System of Accounts prescribed by the Board of Public Utilities of the State of New Jersey (BPU). Tidewater, TESI and Southern Shores maintain their accounts in accordance with the Public Service Commission of Delaware (PSC) requirements.

(c) Utility Plant is stated at original cost as defined for regulatory purposes. Property accounts are charged with the cost of betterments and major replacements of property. Cost includes direct material, labor and indirect charges for pension benefits and payroll taxes. The cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties is charged to the appropriate expense accounts. At December 31, 2008, there was no event or change in circumstance that would indicate that the carrying amount of any long-lived asset was not recoverable.

(d) Depreciation is computed by each regulated member of the Company utilizing a rate approved by the applicable regulatory authority. The Accumulated Provision for Depreciation is charged with the cost of property retired, less salvage. The following table sets forth the range of depreciation rates for the major utility plant categories used to calculate depreciation for the years ended December 31, 2008, 2007 and 2006. These rates have been approved by either the BPU or PSC:

Source of Supply	1.15% - 3.44%
Pumping	2.87% - 5.04%
Water Treatment	2.71% - 7.64%
General Plant	2.08% - 17.84%
Transmission and Distribution (T&D):	
T&D – Mains	1.10% - 3.13%
T&D – Services	2.12% - 2.81%
T&D – Other	1.61% - 4.63%

Non-regulated fixed assets consist primarily of an office building, furniture and fixtures, and transportation equipment. These assets are recorded at original cost and depreciation is calculated based on the estimated useful lives, ranging from 3 to 40 years.

(e) Customers' Advances for Construction – Water utility plant and/or cash advances are contributed to the Company by customers, real estate developers and builders in order to extend water service to their properties. These contributions are recorded as Customers' Advances for Construction. Refunds on these advances are made by the Company in accordance with agreements with the contributing party and are based on either additional operating revenues related to the utility plant or as new customers are connected to and take service from the utility plant. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction.

Contributions in Aid of Construction – Contributions in Aid of Construction include direct non-refundable contributions of water utility plant and/or cash and the portion of Customers' Advances for Construction that become non-refundable.

Advances and Contributions are not depreciated in accordance with BPU and PSC requirements. In addition, these amounts reduce the investment base for purposes of setting rates.

(f) Allowance for Funds Used During Construction (AFUDC) – Middlesex and its regulated subsidiaries capitalize AFUDC, which represents the cost of financing projects during construction. AFUDC is added to the construction costs of individual projects exceeding specific cost and construction period thresholds established for each company and then depreciated along with the rest of the utility plant's costs over its estimated useful life. For the years ended December 31, 2008, 2007 and 2006 approximately $0.7 million, $0.5 million and $0.6 million, respectively of AFUDC was added to the cost of construction projects. AFUDC is calculated using each company's weighted cost of debt and equity as approved in their most recent respective regulatory rate order. The average AFUDC rate for the years ended December 31, 2008, 2007 and 2006 for Middlesex and Tidewater were 7.55% and 8.07%, respectively.

(g) Accounts Receivable – We record bad debt expense based on historical write-offs. The allowance for doubtful accounts was $0.2 million at December 31, 2008, $0.3 million at December 31, 2007, and $0.3 million at December 31, 2006. The corresponding expense for the year ended December 31, 2008, 2007 and 2006 was $0.2 million, $0.1 million and $0.3 million, respectively.

(h) Revenues – General metered customer's bills for regulated water service are typically comprised of two components; a fixed service charge and a volumetric or consumption charge. Revenues from general metered service water customers, except Tidewater, include amounts billed in arrears on a cycle basis and unbilled amounts estimated from the last meter reading date to the end of the accounting period. The estimated unbilled amounts are determined by utilizing factors which include historical consumption usage and current climate conditions. Actual billings may differ from our estimates. Revenues are adjusted in the period that the difference is identified. Tidewater customers are billed in advance for their fixed service charge and these revenues are recognized as the service is provided to the customer.

Southern Shores is an unmetered system. Customers are billed a fixed service charge in advance at the beginning of each month and revenues are recognized as earned. Revenues from the City of Perth Amboy management contract are comprised of fixed and variable fees. Fixed fees, which have been set for the life of the contract, are billed monthly and recorded as earned. Variable fees, which are not significant, are recorded upon approval of the amount by the City of Perth Amboy.

USA bills customers on a quarterly or annual basis for its LineCare[SM] service line maintenance program. Quarterly amounts billed are recognized as earned. Amounts that are billed on an annual basis are deferred and recognized as revenue ratably over the year.

(i) Deferred Charges and Other Assets – Unamortized Debt Expense is amortized over the lives of the related issues. Restricted Cash represents proceeds from loans entered into through state financing programs and is held in trusts. The proceeds are restricted for specific capital expenditures and debt service requirements.

(j) Income Taxes – Middlesex files a consolidated federal income tax return for the Company and income taxes are allocated based on the separate return method. Investment tax credits have been deferred and are amortized over the estimated useful life of the related property.

(k) Statements of Cash Flows – For purposes of reporting cash flows, the Company considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents. Cash and cash equivalents represent bank balances and money market funds with investments maturing in less than 90 days.

(l) Use of Estimates – Conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ from those estimates.

(m) Recent Accounting Pronouncements – In December 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 132(R)-1, "Employers' Disclosures about

Postretirement Benefit Plan Assets". This FSP amends Statement of Financial Accounting Standards (SFAS) 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits", to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by this FSP shall be provided for fiscal years ending after December 15, 2009. The Company is currently reviewing the effect this new pronouncement will have on its consolidated financial statements.

In October 2008, the FASB issued FSP FAS No. 157-3, "Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active" (FSP 157-3), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 was effective immediately. The application of the provisions of FSP 157-3 did not materially affect the Company's financial statements.

In September 2006, the Financial FASB issued SFAS 157, Fair Value Measurements, which establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FSP FAS No. 157-2, "Effective Date of FASB Statement No. 157" (FSP 157-2), which deferred the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities. Adoption of SFAS 157 for financial assets and financial liabilities did not have a material impact on the Company's financial statements. The Company does not anticipate that adoption of FSP 157-2 will have a material impact on its financial statements.

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." This FSP clarifies that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. This FSP, which is effective for fiscal years beginning after December 15, 2008 will not have an impact on the Company's consolidated financial statements.

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

In February 2007, the FASB issued FSP FAS 158-1, "Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No 106 and to the Related Staff Implementation Guides." This FSP makes conforming amendments to other FASB statements and staff implementation guides and provides technical corrections to SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The conforming amendments in this FSP did not have a material impact on the Company's consolidated financial statements or disclosures.

In May 2007, the FASB issued FSP FIN 48-1 "Definition of Settlement in FASB Interpretation No. 48" (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to January 1, 2007. The implementation of this standard did not have a material impact on our consolidated financial position or results of operations.

(n) Other Comprehensive Income – Total comprehensive income includes changes in equity that are excluded from the consolidated statements of income and are recorded into a separate section of capitalization on the consolidated balance sheets.

(o) Regulatory Accounting – We maintain our books and records in accordance with accounting principles generally accepted in the United States of America. Middlesex and certain of its subsidiaries, which account for 90% of Operating Revenues and 98% of Total Assets, are subject to regulation in the state in which they operate. Those companies are required to maintain their accounts in accordance with regulatory authorities' rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance provided in SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation."

(p) Pension Plan - We maintain a noncontributory defined benefit pension plan which covers substantially all employees with more than 1,000 hours of service, and who were hired as of March 31, 2007. The discount rate utilized for determining pension costs increased from 5.52% for the year ended December 31, 2006 to 5.89% for the year ended December 31, 2007 and increased to 6.59% for the year ended December 31, 2008. Future actual pension expense will depend on future investment performance, changes in future discount rates and various other factors related to the population participating in the pension plans.

Note 2 - Rate and Regulatory Matters

Effective December 18, 2008, Pinelands Water and Pinelands Wastewater implemented New Jersey Board of Public Utilities (BPU) approved base rate increases of 5.53% and 18.30%, respectively. These increases represent a total base rate increase of approximately $0.2 million for Pinelands to offset increased costs associated with the operation and maintenance of their systems.

Effective October 26, 2007, Middlesex received approval from the New Jersey Board of Public Utilities (BPU) for a 9.1%, or $5.0 million increase in its base water rates. The increase was predicated on a rate base of $164.4 million and an authorized return on equity of 10.0%. Middlesex had originally filed for an $8.9 million or 16.5% base rate increase with the BPU on April 18, 2007. The rate 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 June 2005.

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. Since June 27, 2006, Tidewater has been billing and recognizing additional revenues through a 15% interim rate increase subject to refund as allowed under PSC regulations. A settlement was reached amongst the parties which concluded that a 26.9% overall increase in base rates would be implemented. The PSC approved the settlement and the remaining 11.9% increase was put into effect on February 28, 2007.

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2009. 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%.

We have recorded certain costs as regulatory assets because we expect full recovery of, or are currently recovering, these costs in the rates we charge customers. These deferred costs have been excluded from rate base and, therefore, we are not earning a return on the unamortized balances. These items are detailed as follows:

December 31,
(Thousands of Dollars)

Regulatory Assets	**2008**	2007	Remaining Recovery Periods
Postretirement Benefits	**$20,679**	$7,279	Various
Income Taxes	**10,905**	8,222	Various
Tank Painting	**189**	225	3-7 years
Rate Cases and Other	**137**	364	Up to 2 years
Total	**$31,910**	$16,090	

Postretirement benefits include pension and other postretirement benefits that have been recorded on the Consolidated Balance Sheet upon adoption of SFAS 158. These amounts represent obligations in excess of current funding, which the Company believes will be fully recovered in rates set by the regulatory authorities.

The recovery period for income taxes is dependent upon when the temporary differences between the tax and book treatment of various items reverse.

The Company uses composite depreciation rates for its regulated utility assets, which is currently an acceptable method under generally accepted accounting principles and is widely used in the utility industry. Historically, under the composite depreciation method, the anticipated costs of removing assets upon retirement are provided for over the life of those assets as a component of depreciation expense. The Company recovers certain asset retirement costs through rates charged to customers as an approved component of depreciation expense. As of December 31, 2008 and 2007, the Company has approximately $6.2 million and $5.7 million, respectively, of expected costs of removal recovered currently in rates in excess of actual costs incurred. These amounts are recorded as regulatory liabilities.

The Company is recovering in current rates acquisition premiums totaling $0.8 million over the remaining lives of the underlying Utility Plant. These deferred costs have been included in rate base as utility plant and a return is being earned on the unamortized balances during the recovery periods.

Note 3 - Income Taxes

Income tax expense differs from the amount computed by applying the statutory rate on book income subject to tax for the following reasons:

	Years Ended December 31, *(Thousands of Dollars)*		
	2008	2007	2006
Income Tax at Statutory Rate	**$6,253**	$6,021	$5,155
Tax Effect of:			
Utility Plant Related	**(725)**	(595)	(338)
State Income Taxes – Net	**309**	350	257
Employee Benefits	**202**	(49)	(48)
Other	**17**	9	15
Total Income Tax Expense	**$6,056**	$5,736	$5,041

Income tax expense is comprised of the following:

	Years Ended December 31, *(Thousands of Dollars)*		
	2008	2007	2006
Current:			
Federal	**$4,651**	$4,894	$3,846
State	**392**	413	298
Deferred:			
Federal	**1,018**	634	884
State	**74**	117	92
Investment Tax Credits	**(79)**	(322)	(79)
Total Income Tax Expense	**$6,056**	$5,736	$5,041

The statutory review period for income tax returns for the years prior to 2007 has been closed. An examination by the Internal Revenue Service of the Federal income tax returns for 2005 and 2006 was completed during 2008. The examination resulted in a net refund, including interest of approximately $0.1 million. The tax refund was recorded to the appropriate current and deferred tax accounts and the interest was reported as other income. In the event that there are interest and penalties associated with income tax adjustments in future examinations, these amounts will be reported under interest expense and other expense, respectively. There are no unrecognized tax benefits resulting from prior period tax positions.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial purposes and the amounts used for income tax purposes. The components of the net deferred tax liability are as follows:

	December 31, *(Thousands of Dollars)*	
	2008	2007
Utility Plant Related	**$26,224**	$24,892
Customer Advances	**(4,036)**	(4,117)
Employee Benefits	**(65)**	(2,544)
Other	**(390)**	(291)
Total Deferred Tax Liability	**$21,733**	$17,940

Note 4 - 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. Under the agreement, USA-PA receives a fixed fee and a variable fee based on increased system billing. Scheduled fixed fee payments for 2008, 2007 and 2006 were $8.0 million, $7.8 million and $7.6 million, respectively. 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 December 31, 2008, approximately $21.4 million of the Series C Serial Bonds remained outstanding.

We are 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 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 a 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:

	Years Ended December 31, *(Millions of Dollars)*		
Purchased Water	**2008**	2007	2006
Untreated	**$2.4**	$2.4	$2.3
Treated	**2.1**	2.1	1.9
Total Costs	**$4.5**	$4.5	$4.2

Construction –The Company may spend up to $33.0 million in 2009, $47.6 million in 2010 and $43.6 million in 2011 on its construction program. The development of these estimates is based in part upon projected housing development and sales in Delaware. There is no assurance that the projected housing development will occur.

Litigation – The Company is a defendant in lawsuits in the normal course of business. We believe the resolution of pending claims and legal proceedings will not have a material adverse effect on the Company's consolidated financial statements.

Change in Control Agreements – The Company has Change in Control Agreements with certain of its officers that provide compensation and benefits in the event of termination of employment in connection with a change in control of the Company.

Note 5 – Short-term Borrowings

Information regarding the Company's short-term borrowings for the years ended December 31, 2008 and 2007 is summarized below:

	(Millions of Dollars)	
	2008	2007
Established Lines at Year-End	**$36.0**	$40.0
Maximum Amount Outstanding	**25.9**	6.6
Average Outstanding	**16.4**	2.6
Notes Payable at Year-End	**25.9**	6.3
Weighted Average Interest Rate	**3.69%**	6.36%
Weighted Average Interest Rate at Year-End	**2.30%**	5.79%

The maturity dates for the $25.9 million borrowings outstanding as of December 31, 2008 are: $16.5 million on several dates in January 2009, $3.5 million on February 9, 2009 and $5.9 million on several dates in March, 2009. The weighted average interest rate for those loans is 2.30%

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

Note 6 - Capitalization

All the transactions discussed below related to the issuance of securities were approved by either the BPU or PSC, except where otherwise noted.

Common Stock

In June 2007, the number of shares authorized under the Dividend Reinvestment and Common Stock Purchase Plan (DRP) increased from 1,700,000 shares to 2,300,000 shares. The cumulative number of shares issued under the DRP at December 31, 2008, is 1,684,411. The Company also has shares authorized and outstanding under a restricted stock plan, which is described in Note 7 – Employee Benefit Plans.

In November 2006, the Company sold and issued 1,495,000 shares of its common stock in a public offering that was priced at $18.46. The majority of the net proceeds of approximately $26.2 million were used to repay all of the Company's short-term borrowings outstanding at that time. Remaining proceeds from the public offering were used to fund a portion of the 2007 capital program.

In the event dividends on the preferred stock are in arrears, no dividends may be declared or paid on the common stock of the Company. At December 31, 2008, no preferred stock dividends were in arrears.

Preferred Stock
If four or more quarterly dividends are in arrears, the preferred shareholders, as a class, are entitled to elect two members to the Board of Directors in addition to Directors elected by holders of the common stock. At December 31, 2008 and 2007, 31,898 and 36,898 shares of preferred stock presently authorized were outstanding and there were no dividends in arrears.

The conversion feature of the no par $7.00 Series Cumulative and Convertible Preferred Stock allows the security holders to exchange one convertible preferred share for twelve shares of the Company's common stock. In addition, the Company may redeem up to 10% of the outstanding convertible stock in any calendar year at a price equal to the fair market value of twelve shares of the Company's common stock for each share of convertible stock redeemed.

The conversion feature of the no par $8.00 Series Cumulative and Convertible Preferred Stock allows the security holders to exchange one convertible preferred share for 13.714 shares of the Company's common stock. The preferred shares are convertible into common stock at the election of the security holder or Middlesex. During 2008, 5,000 shares of the no par $8.00 Series Cumulative and Convertible Preferred Stock were converted into 68,570 of common stock.

Long-term Debt
In November 2008, Middlesex issued $3.5 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust under the New Jersey State Revolving Fund (SRF) program. The Company closed on the first mortgage bonds designated as Series KK and LL on November 8, 2008.

In December 2007, Tidewater closed on a loan with the Delaware SRF for two specific projects and borrowed $0.5 million in 2008. The interest rate is 3.64% with a final maturity of July 1, 2028.

In November 2007, Middlesex issued $3.5 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust under the New Jersey SRF program. The Company closed on the first mortgage bonds designated as Series II and JJ on November 8, 2007.

First Mortgage Bonds Series S through W and Series DD are term bonds with single maturity dates. With the exception of $15.0 million for repayment for the First Mortgage Bond Series U which matured on February 2, 2009, principal repayments for the First Mortgage Bonds extend beyond 2012. The aggregate annual principal repayment obligations for all other long-term debt are shown below:

	(Millions of Dollars)
Year	Annual Maturities
2009	$3.0
2010	$3.4
2011	$3.4
2012	$3.5
2013	$3.5

The weighted average interest rate on all long-term debt at December 31, 2008 and 2007 was 5.15% and 5.20%, respectively. Except for the Amortizing Secured Notes and Series U First Mortgage Bonds, all of the Company's outstanding debt has been issued through the New Jersey Economic Development Authority ($57.5 million), the New Jersey Environmental Infrastructure Trust program ($34.0 million) and the Delaware SRF program ($6.5 million).

Restricted cash includes proceeds from the Series Y, AA, BB, CC, EE, FF, GG, HH, II, JJ, KK and LL First Mortgage Bonds and State Revolving Trust Bonds issuances. These funds are held in trusts and restricted for specific capital expenditures and debt service requirements. Series II and JJ proceeds can only be used for the 2008 main cleaning and cement lining program. Series KK and LL proceeds can only be used for the 2009 main cleaning and cement lining program. All other bond issuance balances in restricted cash are for debt service requirements.

Substantially all of the Utility Plant of the Company is subject to the lien of its mortgage, which includes debt service and capital ratio covenants. The Company is in compliance with all of its mortgage covenants and restrictions.

Earnings Per Share

The following table presents the calculation of basic and diluted earnings per share (EPS) for the three years ended December 31, 2008. Basic EPS is 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 $8.00 Series.

	(In Thousands, Except per Share Amounts)					
	2008		2007		2006	
Basic:	Income	Shares	Income	Shares	Income	Shares
Net Income	**$12,208**	**13,317**	$11,843	13,203	$10,039	11,844
Preferred Dividend	**(218)**		(248)		(248)	
Earnings Applicable to Common Stock	**$11,990**	**13,317**	$11,595	13,203	$ 9,791	11,844
Basic EPS	**$ 0.90**		$ 0.88		$ 0.83	
Diluted:						
Earnings Applicable to Common Stock	**$11,990**	**13,317**	$11,595	13,203	$ 9,791	11,844
$7.00 Series Dividend	**97**	**167**	97	167	97	167
$8.00 Series Dividend	**66**	**131**	96	164	96	164
Adjusted Earnings Applicable to Common Stock	**$12,153**	**13,615**	$11,788	13,534	$ 9,984	12,175
Diluted EPS	**$ 0.89**		$ 0.87		$ 0.82	

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments for which it is practicable to estimate that value. The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, marketable securities, and trade receivables and payables approximate their respective fair values due to the short-term maturities of these instruments. The fair value of the Company's long-term debt relating to first mortgage bonds is based on quoted market prices for similar issues. The carrying amount and fair market value of the Company's bonds were as follows:

	At December 31, *(Thousands of Dollars)*			
	2008		2007	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
First Mortgage Bonds	**$105,290**	**$95,171**	$103,322	$104,681
State Revolving Bonds	**$ 1,160**	**$ 1,170**	$ 1,233	$ 1,272

For other long-term debt for which there was no quoted market price, it was not practicable to estimate their fair value. The carrying amount of these instruments was $29.8 million at December 31, 2008 and 2007, respectively. Customer advances for construction have a carrying amount of $22.1 million and $21.8 million at December 31, 2008 and 2007, respectively. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

Note 7 - Employee Benefit Plans

Pension

The Company has a noncontributory defined benefit pension plan, which covers substantially all employees with more than 1,000 hours of service. Employees hired after March 31, 2007 are not eligible to participate in this plan, but do participate in a defined contribution plan that provides an annual contribution at the discretion of the Company based upon a percentage of the participants' compensation. In order to be eligible for an annual contribution, the eligible employee must be employed by the Company on December 31st of the year the award pertains to. In addition, the Company maintains an unfunded supplemental pension plan for its executive officers. The Accumulated Benefit Obligation for all pension plans at December 31, 2008 and 2007 was $27.5 million and $21.6 million, respectively.

Postretirement Benefits Other Than Pensions

The Company has a postretirement benefit plan other than pensions for substantially all of its retired employees. Employees hired after March 31, 2007 are not eligible to participate in this plan. Coverage includes healthcare and life insurance. Retiree contributions are dependent on credited years of service. Accrued retirement benefit costs are recorded each year.

The Company has recognized a deferred regulatory asset relating to the difference between the accrued retirement benefit costs and actual cash paid for plan premiums in years prior to 1998. Included in the regulatory asset is a transition obligation from adopting SFAS No.106, "Employers' Accounting for Postretirement Benefits Other than Pensions," on January 1, 1993. In addition to the recognition of annual accrued retirement benefit costs in rates, Middlesex is also recovering the transition obligation over 15 years. The regulatory assets at December 31, 2008 and 2007 were $0.4 million and $0.4 million, respectively.

The Company adopted SFAS 158 on December 31, 2006. Because the Company is subject to regulation in the states in which it operates, it is required to maintain its accounts in accordance with the regulatory authority's rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," (SFAS 71). Based on prior regulatory practice, and in accordance with the guidance provided by SFAS 71, the Company records underfunded pension and postretirement obligations, which otherwise would be recognized as Other Comprehensive Income under SFAS 158, as a Regulatory Asset, and expects to recover those costs in rates charged to customers. The adoption of this standard had no impact on results of operations or cash flows.

The Company uses a December 31 measurement date for all of its employee benefit plans. The table below sets forth information relating to the Company's pension plans and other postretirement benefits for 2008 and 2007.

	December 31, (*Thousands of Dollars*)			
	Pension Benefits		**Other Benefits**	
	2008	2007	**2008**	2007
Reconciliation of Projected Benefit Obligation				
Beginning Balance	**$ 30,167**	$31,728	**$ 15,067**	$14,698
Service Cost	**1,248**	1,296	**775**	821
Interest Cost	**1,950**	1,807	**1,010**	895
Actuarial (Gain)/Loss	**2,637**	(3,081)	**2,420**	(852)
Benefits Paid	**(1,650)**	(1,583)	**(501)**	(495)
Ending Balance	**$ 34,352**	$30,167	**$ 18,771**	$15,067
Reconciliation of Plan Assets at Fair Value				
Beginning Balance	**$ 24,568**	$23,028	**$ 7,025**	$ 6,701
Actual Return on Plan Assets	**(5,390)**	1,315	**(1,085)**	324
Employer Contributions	**2,508**	1,808	**1,800**	495
Benefits Paid	**(1,650)**	(1,583)	**(501)**	(495)
Ending Balance	**$ 20,036**	$24,568	**$ 7,239**	$ 7,025
Funded Status	**$(14,316)**	$ (5,599)	**$(11,532)**	$ (8,042)
Amounts Recognized in the Consolidated Balance Sheets consist of:				
Current Liability	**(308)**	(308)	**—**	—
Noncurrent Liability	**(14,008)**	(5,291)	**(11,532)**	(8,042)
Net Liability Recognized	**$(14,316)**	$ (5,599)	**$(11,532)**	$ (8,042)

	Years Ended December 31, (Thousands of Dollars)					
	Pension Benefits			Other Benefits		
	2008	2007	2006	**2008**	2007	2006
Components of Net Periodic Benefit Cost						
Service Cost	**$1,248**	$1,296	$1,311	**$ 775**	$ 821	$ 756
Interest Cost	**1,950**	1,807	1,703	**1,010**	895	804
Expected Return on Plan Assets	**(1,938)**	(1,819)	(1,608)	**(581)**	(481)	(330)
Amortization of Net Transition Obligation	**—**	—	—	**135**	135	135
Amortization of Net Actuarial (Gain)/Loss	**—**	75	258	**287**	337	443
Amortization of Prior Service Cost	**10**	10	11	**—**	—	—
Net Periodic Benefit Cost	**$1,270**	$1,369	$1,675	**$1,626**	$1,707	$1,808

Amounts that are expected to be amortized from Regulatory Assets into Net Periodic Benefit Cost in 2009 are as follows:

	(Thousands of Dollars)	
	Pension Benefits	Other Benefits
	2009	**2009**
Actuarial (Gain)/Loss	**$ 601**	**$579**
Prior Service Cost	**10**	**—**
Transition Obligation	**—**	**135**

	Pension Benefits			Other Benefits		
	2008	2007	2006	**2008**	2007	2006
Weighted Average Assumptions:						
Expected Return on Plan Assets	**8.00%**	8.00%	8.00%	**7.50%**	7.50%	7.50%
Discount Rate for:						
Benefit Obligation	**6.17%**	6.59%	5.89%	**6.12%**	6.59%	5.89%
Benefit Cost	**6.59%**	5.89%	5.52%	**6.59%**	5.89%	5.52%
Compensation Increase for:						
Benefit Obligation	**3.50%**	3.50%	3.50%	**3.50%**	3.50%	3.50%
Benefit Cost	**3.50%**	3.50%	3.50%	**3.50%**	3.50%	3.50%

The compensation increase assumption for Other Benefits is attributable to life insurance provided to qualifying employees upon their retirement. The insurance coverage will be determined based on the employee's base compensation as of their retirement date.

A 9.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2008 and assumed to decline by 1.0% per year through 2011 and by 0.5% per year to 5% by year 2014. A one-percentage point change in assumed healthcare cost trend rates would have the following effects:

	(Thousands of Dollars) 1 Percentage Point	
	Increase	Decrease
Effect on Current Year's Service and Benefit Cost	$392	$(299)
Effect on Benefit Obligation	2,630	(2,070)

The following benefit payments, which reflect expected future service, are expected to be paid:

Year	(Thousands of Dollars) Pension Benefits	Other Benefits
2009	$ 1,630	$ 546
2010	1,635	561
2011	1,688	601
2012	1,691	645
2013	1,802	691
2014-2018	10,487	4,290
Totals	$18,933	$7,334

Benefit Plans Assets

The allocation of plan assets at December 31, 2008 and 2007 by asset category is as follows:

	Pension Plan		Other Benefits			
Asset Category	**2008**	2007	**2008**	2007	Target	Range
Equity Securities	**49.5%**	59.7%	**25.7%**	47.0%	60%	30-65%
Debt Securities	**47.0**	37.8	**59.6**	50.6	38%	25-70%
Cash	**3.5**	2.5	**14.7**	2.4	2%	0-10%
Total	**100.0%**	100.0%	**100.0%**	100.0%		

Two outside investment firms each manage a portion of the pension plan asset portfolio. One of those investment firms also manages the other postretirement benefits assets. Quarterly meetings are held between the Company's Pension Committee of the Board of Directors and the investment managers to review their performance and asset allocation. If the actual asset allocation is outside the targeted range, the Pension Committee reviews current market conditions and advice provided by the investment managers to determine the appropriateness of rebalancing the portfolio.

The objective of the Company is to maximize the long-term return on benefit plan assets, relative to a reasonable level of risk, maintain a diversified investment portfolio and maintain compliance with the Employee Retirement Income Security Act of 1974. The expected long-term rate of return is based on the various asset categories in which plan assets are invested and the current expectations and historical performance for these categories.

Equity securities include Middlesex common stock in the amounts of $0.7 million (3.4% of total plan assets) and $0.7 million (3.0 % of total plan assets) at December 31, 2008 and 2007, respectively.

For the pension plan, Middlesex made total cash contributions of $2.4 million and contributed $0.1 million in equity securities to the plan in 2008 and expects to make cash contributions of approximately $3.6 million in 2009.

For the postretirement health benefit plan, Middlesex made total cash contributions of $1.8 million in 2008 and expects to make contributions of approximately $2.0 million in 2009.

401(k) Plan

The Company has a 401(k) defined contribution plan, which covers substantially all employees with more than 1,000 hours of service. Under the terms of the Plan, the Company matches 100% of a participant's contributions, which do not exceed 1% of a participant's compensation, plus 50% of a participant's contributions exceeding 1%, but not more than 6%. The Company's matching contributions were $0.5 million for the year ended December 31, 2008 and $.04 million for each of the years ended December 31, 2007 and 2006.

For those employees hired after March 31, 2007 and still employed on December 31, 2008, the Company approved a discretionary contribution that was based on 5% of eligible compensation. The Company expects to fund the contribution of $0.1 million in March 2009.

Stock-Based Compensation
The Company maintains an escrow account for 58,775 shares of the Company's common stock which were awarded under the 1997 Restricted Stock Plan, which has expired and 21,807 shares of the Company's common stock which were awarded under the 2008 Restricted Stock Plan. Such stock is subject to an agreement requiring forfeiture by the employee in the event of termination of employment within five years of the award other than as a result of retirement, death, disability or change in control. Shareholders approved the new 2008 Restricted Stock Plan at the Company's May 21, 2008 annual meeting of shareholders. The maximum number of shares authorized for grant under the 2008 Restricted Stock Plan is 300,000 shares.

The Company recognizes compensation expense at fair value for the restricted stock awards in accordance with SFAS No.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.

The following table presents information on the Restricted Stock Plan:

(In Thousands Except Grant Price)	Shares	Unearned Compensation	Weighted Average Grant Price
Balance, January 1, 2006	56	$700	
Granted	21	405	$19.24
Vested	(11)		
Forfeited	(2)	(38)	
Amortization of Compensation Expense		(271)	
Balance, December 31, 2006	64	$796	
Granted	18	344	$19.10
Vested	(10)		
Forfeited	(1)	(3)	
Amortization of Compensation Expense		(276)	
Balance, December 31, 2007	71	$861	
Granted	22	377	$17.30
Vested	(12)		
Forfeited		(5)	
Amortization of Compensation Expense		(305)	
Balance, December 31, 2008	**81**	**$928**	

Note 8 – 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 service 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.

	Years Ended December 31, *(Thousands of Dollars)*		
Operations by Segments:	**2008**	2007	2006
Revenues:			
Regulated	**$81,118**	$77,113	$71,948
Non – Regulated	**10,327**	9,392	9,317
Inter-segment Elimination	**(407)**	(391)	(204)
Consolidated Revenues	**$91,038**	$86,114	$81,061
Operating Income:			
Regulated	**$22,132**	$21,351	$20,062
Non – Regulated	**1,887**	1,320	1,256
Consolidated Operating Income	**$24,019**	$22,671	$21,318
Depreciation:			
Regulated	**$ 7,798**	$ 7,408	$ 6,936
Non – Regulated	**124**	131	124
Consolidated Depreciation	**$ 7,922**	$ 7,539	$ 7,060
Other Income, Net:			
Regulated	**$ 1,077**	$ 1,643	$ 951
Non – Regulated	**387**	—	(78)
Inter-segment Elimination	**(162)**	(116)	(99)
Consolidated Other Income, Net	**$ 1,302**	$ 1,527	$ 774
Interest Expense:			
Regulated	**$ 6,981**	$ 6,619	$ 7,012
Non – Regulated	**238**	116	99
Inter-segment Elimination	**(162)**	(116)	(99)
Consolidated Interest Charges	**$ 7,057**	$ 6,619	$ 7,012
Net Income:			
Regulated	**$10,976**	$11,120	$ 9,417
Non – Regulated	**1,232**	723	622
Consolidated Net Income	**$12,208**	$11,843	$10,039
Capital Expenditures:			
Regulated	**$27,188**	$21,586	$30,492
Non – Regulated	**1,241**	344	242
Total Capital Expenditures	**$28,429**	$21,930	$30,734

	As of December 31,	
	2008	2007
Assets:		
Regulated	**$433,109**	$387,931
Non – Regulated	**11,537**	8,157
Inter-segment Elimination	**(4,646)**	(3,413)
Consolidated Assets	**$440,000**	$392,675

Note 9 - Quarterly Operating Results - Unaudited

Operating results for each quarter of 2008 and 2007 are as follows:

	(Thousands of Dollars, Except per Share Data)				
2008	1st	2nd	3rd	4th	Total
Operating Revenues	**$20,855**	**$23,035**	**$25,653**	**$21,495**	**$91,038**
Operating Income	**4,347**	**6,825**	**8,384**	**4,463**	**24,019**
Net Income	**2,004**	**3,565**	**4,715**	**1,924**	**12,208**
Basic Earnings per Share	**$ 0.15**	**$ 0.26**	**$ 0.35**	**$ 0.14**	**$ 0.90**
Diluted Earnings per Share	**$ 0.15**	**$ 0.26**	**$ 0.35**	**$ 0.13**	**$ 0.89**
2007					
Operating Revenues	$18,988	$21,745	$24,135	$21,246	$86,114
Operating Income	3,722	6,279	7,729	4,941	22,671
Net Income	1,769	3,313	4,158	2,603	11,843
Basic Earnings per Share	$ 0.13	$ 0.25	$ 0.31	$ 0.19	$ 0.88
Diluted Earnings per Share	$ 0.13	$ 0.24	$ 0.31	$ 0.19	$ 0.87

The information above, in the opinion of the Company, includes all adjustments consisting only of normal recurring accruals necessary for a fair presentation of such amounts. The business of the Company is subject to seasonal fluctuation with the peak period usually occurring during the summer months.

COMMON STOCK MARKET PRICE AND DIVIDEND PER SHARE

		2008			2007	
	High	**Low**	**Dividend**	High	Low	Dividend
First Quarter	**$19.83**	**$17.25**	**$0.1750**	$19.07	$17.75	$0.1725
Second Quarter	**19.23**	**16.59**	**0.1750**	19.48	18.12	0.1725
Third Quarter	**18.52**	**15.68**	**0.1750**	20.24	18.05	0.1725
Fourth Quarter	**17.93**	**12.05**	**0.1775**	19.25	18.10	0.1750

Schedule of Dividend Dates for the Year 2009*

	Declaration Dates	**Record Dates**	**Payment Dates**	**Ex. Dividend Dates**
Common	January 20	February 13	March 2	February 11
	April 28	May 15	June 1	May 13
	July 28	August 14	September 1	August 12
	October 28	November 13	December 1	November 11
Preferred	December 17**	January 15	February 2	January 13
	March 24	April 15	May 1	April 13
	June 23	July 15	August 3	July 13
	September 21	October 15	November 2	October 13

* Subject to approval by Board of Directors **2008

Board of Directors

J. Richard Tompkins
Chairman of the Board

Dennis W. Doll
President and Chief Executive Officer

Annette Catino
President and Chief Executive Officer, QualCare Alliance Networks, Inc.

John C. Cutting
Retired, formerly Senior Engineer, Science Applications International Corporation

John R. Middleton, MD
Engaged in Private Practice, Infectious Diseases; formerly Chair of the Department of Medicine and former Chief Medical Officer of Raritan Bay Medical Center

John P. Mulkerin
Retired, formerly President and Chief Executive Officer, First Sentinel Bancorp, Inc.

Walter G. Reinhard
Member, Law Firm of Norris, McLaughlin & Marcus, P.A.

Jeffries Shein
Managing Partner, JGT Management Co., LLC

Officers

Dennis W. Doll
President and Chief Executive Officer

James P. Garrett
Vice President – Human Resources

A. Bruce O'Connor
Vice President and Chief Financial Officer

Kenneth J. Quinn
Vice President, General Counsel, Secretary and Treasurer

Richard M. Risoldi
Vice President – Subsidiary Operations

Bernadette M. Sohler
Vice President – Corporate Affairs

Ronald F. Williams
Vice President – Operations and Chief Operating Officer

Shareholder Information

Stock Exchange Listing
The Common Stock of Middlesex Water Company is listed on the NASDAQ Global Select Market under the symbol MSEX.

Annual Meeting
The Annual Meeting of Shareholders will be held on May 20, 2009, at 11:00 a.m. at the Office of the Company, 1500 Ronson Road, Iselin, NJ. The record date for the 2008 Annual Meeting was March 16, 2009.

Shareholders
As of December 31, 2008, there were 1,967 registered shareholders.

Shareholder Services
Registrar and Transfer Company is the transfer agent for Middlesex Water Company and can answer questions concerning your account, dividend payments, lost certificates, transfer of stock, change of address and other related matters.

Transfer Agent and Registrar
Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016
Telephone: 800-368-5948
Fax: 908-497-2318
Website: www.rtco.com
E-mail: info@rtco.com

Investor Relations Contact
Bernadette M. Sohler
Vice President - Corporate Affairs
Telephone: 732-638-7549
Fax: 732-638-7515
E-mail:
bsohler@middlesexwater.com

Auditors
Beard Miller Company LLP
2609 Keiser Blvd.
P.O. Box 311
Reading, PA 19603-0311
Telephone: 800-267-9405

Mortgage Trustee
U.S. Bank National Association
21 South Street, 3rd Floor
Morristown, NJ 07960

Form 10-K
You may request a copy of our Annual Report on Form 10-K as filed with the Securities and Exchange Commission free of charge by contacting the Investor Relations Department at 1500 Ronson Road, Iselin, NJ 08830. Filings may also be found on our website at: www.middlesexwater.com.

Dividend Reinvestment
Middlesex Water Company offers a Dividend Reinvestment Plan (DRIP) which provides registered shareholders with a convenient way to purchase additional shares of stock through investment of dividends or voluntary cash payments. A prospectus describing the Plan is available from the transfer agent or the Company.

Direct Deposit of Dividends
Middlesex Water Company offers direct deposit of dividends whereby dividend payments may be deposited into shareholders' checking, savings or money market accounts.

Company Headquarters
Middlesex Water Company
1500 Ronson Road
Iselin, NJ 08830
Telephone: 732-634-1500
Fax: 732-638-7515

MIDDLESEX WATER COMPANY

A Provider of Water, Wastewater and Related Products and Services

PO Box 1500
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