

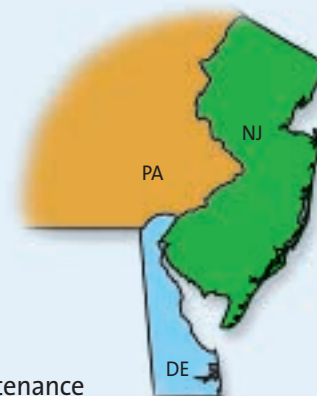
A central image showing five hands of different skin tones holding a circular splash of water. The water is captured in mid-air, creating a dynamic, circular shape. The hands are positioned at the top, bottom, left, and right of the water splash, with the center of the splash being empty.

*Powered by
Professionals*

2009 Annual Report

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, Delaware and Pennsylvania. 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.

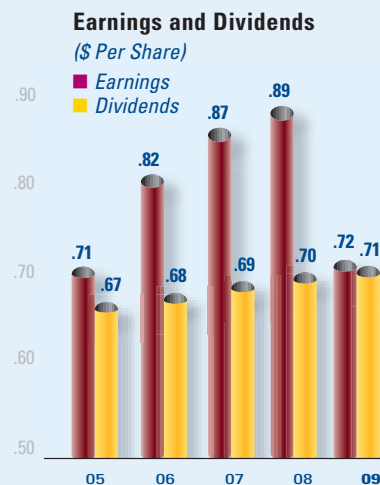
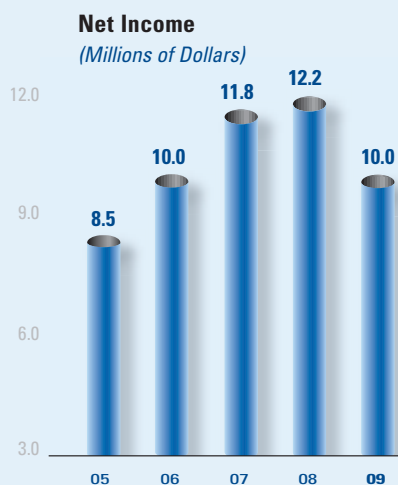
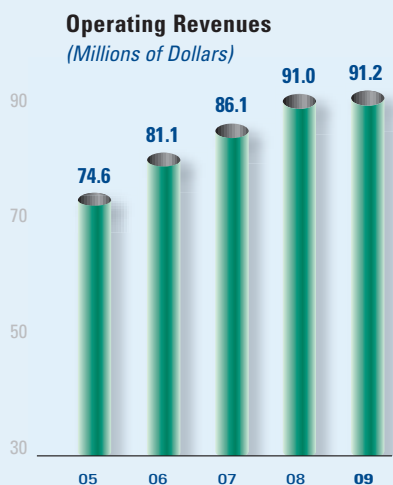


Our Services

- 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

Financial Highlights

<i>(Millions of Dollars, Except per Share Data)</i>	2009	2008	2007
Operating Revenues	\$91.2	\$91.0	\$86.1
Operation and Maintenance Expenses	52.3	48.9	46.2
Depreciation	8.5	7.9	7.5
Income and Other Taxes	15.4	16.2	15.4
Interest Charges	6.7	7.1	6.6
Net Income	10.0	12.2	11.8
Earnings Applicable to Common Stock	9.8	12.0	11.6
Basic Earnings per Share	0.73	0.90	0.88
Diluted Earnings per Share	0.72	0.89	0.87
Cash Dividends Paid per Share	0.71	0.70	0.69
Utility Plant	453.6	430.1	398.6
Return on Average Common Equity	7.1%	8.6%	8.9%



Cover: Nearly a half million people rely on the dedication and technical expertise of our employees who deliver a full range of critical utility services.

Dear Shareholders,



We look to 2010 with anticipation and enthusiasm as the evolution of the water and wastewater industry continues to require an acute focus on balancing the needs of our shareholders for appropriate returns with the needs of our customers for reliable water and wastewater services at reasonable rates. These factors continue to present challenges, coupled with opportunities, for your company. There is an ever-increasing awareness of investment opportunities in our industry, both domestically and internationally.

Water...A Sound Investment

We see interest in our business model, and opportunities for further growth and profitability with several entities with whom we have become acquainted during 2009. The growing national need for upgrade and replacement of aging water and wastewater infrastructure among many public and private entities, coupled with the operational and financial expertise possessed by companies such as Middlesex, continues to foster an environment that is poised for further consolidation of the fragmented water and wastewater industry in the United States. This industry, which is comprised of more than 50,000 community water systems and



Dennis W. Doll
President and
Chief Executive Officer

J. Richard Tompkins
Chairman of the Board

more than 16,000 community wastewater systems, is largely government-owned and operated.

Although there was evidence of positive momentum in our national economy in 2009, the impact of the prolonged national economic downturn on Middlesex Water Company has been more pronounced than had been experienced in recent history in other unfavorable economic cycles. We experienced overall reductions in water consumption in 2009 across our various water utilities as compared to 2008. The continued economic

“ Delivering innovative water and wastewater solutions to municipalities, developers and other customers requires a team of skilled and talented professionals. We have highlighted several of our employees throughout this report and the important roles they play in delivering high quality utility services. ”

Balancing



Rick Nolan supervises one of the utility distribution crews which helps maintain over 1,300 miles of water main, 100,000 service lines and 7,700 hydrants.

To be a trusted provider of safe, reliable and cost-effective services.

Short and Long Term Infrastructure Needs



Gary Doughty responds to one of the 4,800 meter service requests received from customers annually.



Employees receive training in diversified skills enabling them to protect and maintain more than \$453 million in utility infrastructure. (Pictured, left to right:) Tom Amato, Vitaly Chepel, Ray Bisogno, Paul Carlock, Gary Livitt, and Dave Weidele, kneeling.

challenges of a number of our industrial and commercial customers, combined with abnormally cool, wet weather in the Northeast throughout the spring and summer months, resulted in water consumption patterns below normal levels. The impact of weather on our business, particularly as it affects outdoor water use during the spring and summer months, is not new to our company or to our industry. The convergence of abnormal weather patterns in the Northeast in 2009 and the unprecedented challenges within our national and local economies resulted in operating revenues in 2009 substantially below expectations.

Maintaining Service Reliability

Our ability to mitigate the unfavorable effects of economic cycles is evidenced by the mature regulatory framework within which the Middlesex regulated utility companies operate. Our Delaware water utility, Tidewater Utilities, Inc. was awarded a 14.95% base rate increase on September 9, 2009. A significant portion of this increase, or 12.79%, had been awarded at the end of March 2009 on an interim basis, and became permanent

in September 2009. We were pleased with this outcome for our shareholders, despite our concerns regarding a request for an increase in base rates during a difficult economic environment for a number of our customers. We viewed this award as recognition by our Delaware regulators that an appropriate balancing of the utility's need to recover prudent investments in utility infrastructure, together with increases in various operation and maintenance expenses, is essential to the long-term fiscal health of the companies under their jurisdiction.

These regulatory principles are essential to a utility's ability to sustain the level of service necessary to meet customers' needs for a safe, reliable supply of water. A similar request for an increase in base rates was also presented to the New Jersey Board of Public Utilities in August of 2009 for our Middlesex system. As in Delaware, our New Jersey regulators appropriately balanced the needs of our customers and our shareholders, and consequently, awarded Middlesex Water Company a \$7.8 million or 14.8% increase in annual operating revenues, effective March 17, 2010.

Enhancing



*Sr. Meter Reader,
Jaime Crespo, works with
automated data which
facilitates seamless and
accurate billing for
our customers.*

To invest in products and services that complement our business practices.

Our Processes to Better Serve Our Customers



Patti Malazdra is part of a Customer Service team which handles numerous inquiries from our customers in New Jersey, Delaware and Pennsylvania.



PC Support Technician Warren Newton helps maintain the Company's technology platform which helps sustain all critical business processes.

This regulatory framework has matured over a period of many years and has sustained the shareholders and customers of Middlesex Water through numerous economic cycles throughout the Company's 113-year history.

Continued Prudent Investments in Infrastructure

The investor-owned utilities industry has developed over time by balancing near-term operational and financial needs with the need to plan and build for the future. The quality of service enjoyed today by our customers, and the stable investment returns received over time by our shareholders, are directly attributable to the foresight, planning and execution of those who constructed and managed the company's assets over many decades. Investments made in 2009 have been consistent with this philosophy. In addition to the continued renewal and replacement of aging water mains, there are a number of key projects in various stages of completion:

- At our Carl J. Olsen Treatment Plant in New Jersey, our largest water treatment facility, we are nearing completion of our transition from the use of chlorine gas to on-site

generated liquid sodium hypochlorite, used as the primary disinfectant in the water treatment process. This treatment modification was selected as a safer alternative to existing processes.

- We are moving expeditiously to replace approximately 5,300 feet of water main that is no longer a reliable artery to a significant portion of our customer base in the South River Basin in New Jersey. This mile-long pipeline is replacing a deteriorated 80-year old cast iron pipeline under the Raritan River, using state-of-the-art directional-drilling technology.

- A new addition to the administration building was completed for Tidewater Utilities in Delaware to accommodate the growth that has been achieved in recent years.

- A major upgrade to our Southern Shores Water Company treatment plant is underway in Delaware.

- Our strategy to develop regional solutions to meet expanding water and wastewater needs for future Delaware customers continues to mature. The largest of our five planned regional treatment facilities projects has achieved an important milestone with the grant by County

Developing



Isidro Buen, Engineering Technician, uses Geographic Information Systems (GIS) to support the construction and management of water and wastewater assets in addition to planning to meet future customer needs.

To provide a suite of services that result in profitable growth.

Strategic Water and Wastewater Solutions



Project Engineer Eugene Catipay manages plans to enhance and expand area-wide service to ensure adequate infrastructure to support development needs in Delaware.



Tidewater's 86 water plants and more than 163 wells are maintained by mechanics like David Winberry who monitor daily plant operations.

authorities of a conditional use permit for this planned regional system in Sussex County, Delaware.

■ We continue to upgrade and replace our computerized business systems necessary to support our numerous complex end-to-end business processes. We have completed conversion of our financial and human resources support systems and are nearing completion of our customer care and billing, procurement, inventory and fixed asset systems. A project to further implement a Geographic Information System (GIS) has achieved several key milestones and is in use by a continually-increasing number of our field personnel.

The Growth Profile

Customer growth from traditional developer projects occurred in 2009, although at a slower pace than experienced in recent years. Various projects in all of the states where we have a presence had been delayed by developers, and in some instances cancelled, due to continued depressed market demand for new housing, along with the prolonged tightening of credit to developers by banks. We observed throughout 2009

that developers with the greatest financial stability continued to obtain necessary permits for their projects and re-evaluated the timing and extent of their construction plans in anticipation of eventual improvement in the economy.

We acquired the assets of Twin Lakes Water Services, LLC in November 2009, located in northeast Pennsylvania. In the short time we have owned these assets, we have improved service quality for these approximately 300 residents and we are evaluating opportunities to achieve additional economies of scale in this region.

Several of the more than ninety communities we serve in Delaware have been designed to accommodate additional phases of development. As further development in these communities occurs in the future, new customers can be served with only minimal additional capital investment required.

The Strength of Our Team

As part of our ongoing focus on succession at both the Board and management levels, several changes occurred in 2009. We were pleased to be joined on the Board of Directors

Delivering



Chemist Nancy Rochford, working in the Company's state-certified lab, is part of a team of water quality professionals committed to maintaining the highest standards of drinking water excellence.

To be the company of choice for those seeking effective water and wastewater solutions.

High Quality Utility Services



Dave Weed, a professional dual-licensed water and wastewater operator, ensures systems remain in compliance and operating properly.



Our accounting and finance team includes Joann Field, Accounts Payable Supervisor, who administers the business process to account for the multitude of goods and services procured by the Company.

by Steven M. Klein, a former partner in a national accounting and auditing firm and presently Executive Vice President and Chief Financial Officer of a publicly-traded bank.

After nearly fifteen years with Middlesex Water Company, Ronald F. Williams, Vice President – Operations & Chief Operating Officer, retired from the company at the end of 2009. Ronn guided the company through numerous operational challenges over the course of his tenure and we wish him all the best in retirement. Our well-developed pool of diverse operational talent enabled us to fill the void left by Ronn's retirement with a highly-qualified internal candidate. Richard M. Risoldi assumed Ronn's role as Vice President – Operations & Chief Operating Officer effective January 1, 2010. We congratulate Rick and look forward to his contributions toward our further success.

Corporate Commitment

In June 2009, we were honored by a leading New Jersey business publication with a Green Leadership

Award for our outreach and education efforts. We also were named to the FSB 100 List of America's 100 Fastest Growing Publicly Traded Small Companies by Fortune Small Business Magazine. These honors reflect the dedication by our employees to protect the environment and improve the lives of the communities in which we operate while working to deliver quality service and build shareholder value.

Delivering innovative water and wastewater solutions to municipalities, developers and other customers requires a team of skilled and talented professionals. We have highlighted several of our employees throughout this report and the important roles they play in delivering high quality utility services. We appreciate the many personal sacrifices our employees are often required to make to meet all of these needs and along with our entire workforce, we look forward to serving the needs of our customers and shareholders in 2010 and beyond. We thank you for your continued confidence and support.

J. Richard Tompkins
Chairman of the Board

Dennis W. Doll
President and Chief Executive Officer

CONSOLIDATED SELECTED FINANCIAL DATA*(Thousands Except per Share Data)*

	2009	2008	2007	2006	2005
Operating Revenues	\$ 91,243	\$ 91,038	\$ 86,114	\$ 81,061	\$ 74,613
Operating Expenses:					
Operations and Maintenance	52,348	48,929	46,240	43,345	42,156
Depreciation	8,559	7,922	7,539	7,060	6,460
Other Taxes	10,175	10,168	9,664	9,338	8,779
Total Operating Expenses	71,082	67,019	63,443	59,743	57,395
Operating Income	20,161	24,019	22,671	21,318	17,218
Other Income, Net	1,726	1,302	1,527	774	740
Interest Charges	6,750	7,057	6,619	7,012	6,245
Income Taxes	5,160	6,056	5,736	5,041	3,237
Net Income	9,977	12,208	11,843	10,039	8,476
Preferred Stock Dividend	208	218	248	248	251
Earnings Applicable to Common Stock	\$ 9,769	\$ 11,990	\$ 11,595	\$ 9,791	\$ 8,225
Earnings per Share:					
Basic	\$ 0.73	\$ 0.90	\$ 0.88	\$ 0.83	\$ 0.72
Diluted	\$ 0.72	\$ 0.89	\$ 0.87	\$ 0.82	\$ 0.71
Average Shares Outstanding:					
Basic	13,454	13,317	13,203	11,844	11,445
Diluted	13,716	13,615	13,534	12,175	11,784
Dividends Declared and Paid	\$ 0.713	\$ 0.703	\$ 0.693	\$ 0.683	\$ 0.673
Total Assets	\$458,086	\$440,000	\$392,675	\$370,267	\$324,383
Convertible Preferred Stock	\$ 2,273	\$ 2,273	\$ 2,856	\$ 2,856	\$ 2,856
Long-term Debt	\$124,910	\$118,217	\$131,615	\$130,706	\$128,175

STATISTICAL SUMMARY

REVENUES <i>(Thousands of Dollars):</i>	2009	2008	2007	2006	2005
Residential	\$ 40,958	\$ 41,049	\$ 38,792	\$ 34,584	\$ 31,289
Commercial	8,552	8,786	8,358	8,107	7,297
Industrial	8,523	8,511	8,513	8,659	8,183
Fire Protection	9,578	9,461	8,882	8,635	7,742
Contract Sales	11,940	11,892	10,749	9,937	10,024
Contract Operations	9,927	9,539	8,832	8,878	8,082
Other	2,035	1,800	1,988	2,261	1,996
TOTAL REVENUES	\$ 91,243	\$ 91,038	\$ 86,114	\$ 81,061	\$ 74,613
CAPITALIZATION RATIOS:					
Long-term Debt	47%	49%	50%	50%	55%
Preferred Stock	1	1	1	1	2
Common Stock Equity	52	50	49	49	43
TOTAL	100%	100%	100%	100%	100%
OTHER:					
Book Value of Common Stock	\$ 10.23	\$ 10.13	\$ 9.87	\$ 8.86	\$ 8.36
Customers	138,400	137,300	132,000	125,200	119,800
Population Served (Retail)	455,000	451,500	434,600	421,400	407,500
Miles of Main	1,388	1,376	1,343	1,306	1,250
Fire Hydrants	7,768	7,642	7,216	6,821	6,595
Water Production (million gallons)	20,289	20,949	21,731	20,594	21,196

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

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

Management's Overview

Operations

Middlesex Water Company has operated as a water utility in New Jersey since 1897, in Delaware through our wholly-owned subsidiary, Tidewater, since 1992 and in Pennsylvania through our wholly-owned subsidiary, Twin Lakes, since November 2009. We are in the business of collecting, treating and distributing water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate a New Jersey municipal water and wastewater system under contract and provide wastewater services in New Jersey and Delaware through our subsidiaries. We are regulated as to rates charged to customers for water and wastewater services, as to the quality of water service we provide and as to certain other matters in New Jersey, Delaware and Pennsylvania. Only our USA, USA-PA and White Marsh subsidiaries are not regulated utilities.

Our New Jersey water utility system (the Middlesex System) provides water services to approximately 59,800 retail customers, primarily in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey with a total population of approximately 303,000. In partnership with our subsidiary, USA-PA, we operate the water supply system and wastewater system for the City of Perth Amboy, New Jersey. Our Bayview subsidiary provides water services in Downe Township, New Jersey. Our other New Jersey subsidiaries, Pinelands Water and Pinelands Wastewater, provide water and wastewater services to residents in Southampton Township, New Jersey.

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

Our Delaware subsidiaries, Tidewater and Southern Shores, provide water services to approximately 33,200 retail customers in New Castle, Kent and Sussex Counties, Delaware. Our TESI subsidiary provides wastewater services to approximately 1,900 residential retail customers. Tidewater's subsidiary, White Marsh, services an additional 7,200 customers in Kent and Sussex Counties through 68 operations and maintenance contracts. We expect the growth of our regulated wastewater operations in Delaware will eventually become a more significant component of our operations.

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

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

Rates

Middlesex - On August 17, 2009, Middlesex filed an application with the NJBPU seeking permission to increase its base rates by 26.03%, or \$15.1 million. The request was made necessary by increased costs of operations, chemicals and fuel, electricity, taxes, labor and benefits, decreases in industrial and commercial customer demand patterns as well as capital investment of approximately \$39.0 million since Middlesex's last rate filing in April of 2007. Discovery by the intervening parties has begun. We cannot predict whether the NJBPU will ultimately approve, deny, or reduce the amount of the request. A decision by the NJBPU is expected by the second quarter of 2010.

On July 1, 2009, Middlesex implemented a NJBPU approved PWAC in order to recover increased costs of \$1.0 million to purchase untreated water from the New Jersey Water Supply Authority and treated water from a non-affiliated regulated water utility.

Tidewater - On January 26, 2009, Tidewater filed an application with the DEPSC seeking permission to increase its base rates by 32.54%, which was necessitated by increased costs of operations, maintenance and taxes, as well as capital investment since Tidewater's last rate filing in April of 2006. On September 9, 2009, the DEPSC approved a base rate settlement that had been reached amongst the parties that reflects an overall increase of 14.95%. This rate increase approval is expected to generate additional annual revenues of \$3.0 million based on a 10.0% return on common equity.

Effective January 1, 2009, Tidewater received approval from the DEPSC to increase their DSIC from 2.94% to 5.25%. DSIC is a DEPSC 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. As of March 27, 2009, this rate was set to zero in conjunction with interim rates approved in the base rate case described above. On December 22, 2009, Tidewater received approval from the DEPSC to increase their DSIC from 0% to 1.11% effective January 1, 2010.

Southern Shores - In accordance with the tariff and underlying contract established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2009. Under the terms of the contract the increase cannot exceed the lesser of the regional Consumer Price Index or 3%.

Operating Results by Segment

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

The Company has two operating segments, Regulated and Non-Regulated. Our Regulated segment contributed 88%, 89% and 90% of total revenues, and 87%, 90% and 94% of net income for the years ended December 31, 2009, 2008 and 2007, respectively. The discussion of the Company's results of operations is on a consolidated basis, and includes significant factors by subsidiary. The segments in the tables included below are comprised of the following companies: Regulated- Middlesex, Tidewater, Pinelands, Southern Shores, TESI and Twin Lakes; Non-Regulated- USA, USA-PA, and White Marsh.

RESULTS OF OPERATIONS IN 2009 COMPARED TO 2008

Years Ended December 31,
(Millions of Dollars)

	2009			2008		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$80.6	\$10.6	\$91.2	\$81.1	\$9.9	\$91.0
Operations and maintenance	44.2	8.1	52.3	41.2	7.7	48.9
Depreciation	8.4	0.1	8.5	7.8	0.1	7.9
Other taxes	9.9	0.3	10.2	10.0	0.2	10.2
Operating income	\$18.1	\$ 2.1	\$20.2	\$22.1	\$1.9	\$24.0
Other income, net	1.4	0.3	1.7	0.9	0.4	1.3
Interest expense	6.5	0.2	6.7	7.0	0.1	7.1
Income taxes	4.3	0.9	5.2	5.0	1.0	6.0
Net income	\$ 8.7	\$ 1.3	\$10.0	\$11.0	\$1.2	\$12.2

Operating Revenues

Operating revenues for the year ended December 31, 2009 increased \$0.2 million from the same period in 2008. This increase was primarily related to the following factors:

- Revenues in our Middlesex System decreased \$1.6 million, primarily as a result of lower water consumption across our residential, commercial and industrial customer classes. We experienced a \$1.9 million decline in water use by

our general retail metered customers compared to the same period in 2008. This lower water consumption was attributable to unfavorable weather as compared to prior years as well as decreased demand by our large commercial and industrial customers. We are unable to determine when these customers' water demands may return to previous levels, or if the decline in demand will continue indefinitely. Increased revenues of \$0.4 million from the PWAC implemented on July 1, 2009, offset some of the consumption revenue decline. All other factors affecting Middlesex system revenues accounted for a \$0.1 million decrease in revenues.

- Revenues in our Tidewater system increased \$1.4 million. Revenue of \$1.6 million from increased rates helped to mitigate consumption revenue decreases of \$0.8 million, largely attributable to those same weather and usage patterns described above. New customer growth and other fees added \$0.4 million of revenue. All other factors affecting Tidewater system revenues accounted for a \$0.2 million increase in revenues.
- USA-PA's fees for managing the Perth Amboy water and wastewater systems were \$0.5 million higher than the same period in 2008, due mostly to higher pass-through charges and scheduled management fee increases.
- All other operations accounted for a decrease of \$0.1 million in revenues.

Operation and Maintenance Expense

Operation and maintenance expenses for the year ended December 31, 2009 increased \$3.4 million from the same period in 2008. This increase was primarily related to the following factors:

- Labor costs at our regulated entities increased \$0.9 million in 2009 as compared to 2008, primarily due to increases in wages and resources necessary to meet the growing needs of our Delaware service territory and increased overtime incurred in connection with a higher incidence of water main breaks and system maintenance in our Middlesex system.
- Chemical and residuals disposal expenses increased by \$0.8 million in 2009 as compared to 2008. Although unfavorable weather patterns and economic conditions resulted in a decline in water production in our New Jersey and Delaware systems, costs for chemicals and residuals disposal increased due to a combination of unit cost disposal rate increases and lower quality of untreated water, as influenced by abnormally high rainfall during 2009.
- Purchased water costs in our Middlesex system increased \$0.5 million in 2009 as compared to 2008, primarily due to the full year's effect of our suppliers' rate increases that went into effect in the fourth quarter of 2008.
- Employee retirement benefit plan expenses increased \$0.4 million, primarily resulting from increased qualified employee retirement benefit plan expenses of \$1.2 million, largely attributable to the investment performance of the benefit plans' assets, offset by a decrease of \$0.8 million in life insurance program expenses due to market fluctuations in the cash surrender value of life insurance policies.
- Uncollectible accounts expense increased \$0.4 million in 2009 as compared to 2008, resulting from current economic conditions.
- Operating costs for USA-PA increased \$0.3 million, which are recovered under the pass-through mechanism in the contract.
- All other operating and maintenance expense categories increased \$0.1 million in 2009 as compared to 2008.

Depreciation

Depreciation expense for the year ended December 31, 2009 increased \$0.6 million from the same period in 2008 due to a higher level of utility plant in service.

Other Taxes

Other taxes remained consistent with 2008, generally reflecting decreased taxes on lower taxable gross revenues offset by increased payroll and real estate taxes.

Other Income, net

Other Income, net for the year ended December 31, 2009 increased \$0.4 million from the same period in 2008, primarily due to increased Allowance for Funds Used During Construction from higher capitalized interest resulting from our ongoing capital program.

Interest Expense

Interest expense for the year ended December 31, 2009 decreased \$0.4 million from the same period in 2008.

This decrease was primarily related to the following factors:

- Interest expense on long term debt decreased \$0.5 million in 2009 as compared to 2008, primarily resulting from lower average long-term debt outstanding in 2009.
- Other interest expense increased \$0.1 million in 2009 as compared to 2008, primarily due to increased interest costs from higher average short-term debt outstanding in 2009 (\$40.0 million) as compared to 2008 (\$16.4 million) offset by decreased interest costs from lower average short term debt interest rates in 2009 (1.73%) as compared to 2008 (3.69%).

Income Taxes

Income taxes for the year ended December 31, 2009 decreased \$0.8 million as compared to 2008, primarily resulting from decreased operating income in 2009 as compared to 2008.

Net Income and Earnings Per Share

Net income for the year ended December 31, 2009 decreased \$2.2 million from the same period in 2008. Basic earnings per share decreased to \$0.73 in 2009 as compared to \$0.90 in 2008. Diluted earnings per share decreased to \$0.72 in 2009 as compared to \$0.89 in 2008.

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

Operating revenues for the year rose \$4.9 million over the same period in 2007. This increase was primarily related to the following factors:

- 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 effective February 28, 2007, and DSIC rate increases of 1.62% and 2.94% that went into effect January 1, 2008 and July 1, 2008, respectively. 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.

Operation and Maintenance Expense

Operation and maintenance expenses increased \$2.7 million. This increase was primarily related to the following factors:

- 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

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

Other Taxes

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

Other Income, Net

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

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

Income Taxes

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 and Earnings Per Share

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.

Outlook

Our revenues are expected to increase in 2010 from the full year's effect of rate increases granted to Tidewater in September 2009, the January 1, 2010 Tidewater DSIC rate implementation and an anticipated rate increase for Middlesex. There can be no assurances however, that the NJBPU will grant Middlesex's filed rate increase request 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 in determining the need for rate increase requests. We continue to implement plans to streamline operations and reduce operating costs.

Ongoing economic conditions continue to negatively impact our customers' water consumption, particularly the level of water usage by our commercial and industrial customers in our Middlesex system. We are unable to determine when these customers' water demands may return to previous levels, or if a reduced level of demand will continue indefinitely. The decrease in demand by our commercial and industrial customers in our Middlesex system was one of

the factors that required our rate increase petition with the NJBPU. If water demand by our commercial and industrial customers in our Middlesex system does not return to previous levels and/or our proposed rate increase is not approved in whole or in part, our financial condition and results of operations could be negatively impacted.

As a result of ongoing challenging economic conditions impacting the pace of new residential home construction, there may be an increase in the amount of Preliminary Survey & Investigation costs that will not be currently recoverable in rates. In addition, the impact of the depressed national and local economies on the residential housing market has resulted in the suspension of construction activities on the North Carolina water and wastewater facility we agreed to own and operate. We are not obligated to assume ownership of the facilities until completion of construction by the present owner and until homes are occupied and customers are connected. We entered into this agreement in 2008 and have invested approximately \$0.6 million. Construction is expected to resume as demand for new residential housing improves and we continue to preserve our rights for recovery of our investment if the project does not move forward in a timeframe acceptable to us.

On February 3, 2010, the Company filed a petition with the NJBPU seeking approval to issue up to 2.0 million shares of common stock in the form of a follow-on offering during the second quarter of 2010. The proceeds from the common stock offering will be used to retire short term debt. We expect our level of short-term debt borrowing to decrease in 2010 as compared to 2009.

The return on assets held in our retirement benefit plans during 2009 resulted in an increase in the amount available to fund current and future obligations. We expect this will help stabilize retirement plan benefit expenses and retirement plan cash contributions in 2010.

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 we believe complement existing capabilities and will ultimately increase shareholder value.

Liquidity and Capital Resources

Cash flows from operations are largely based on four factors: weather, adequate and timely rate increases, effective cost management and customer growth. The effect of those factors on net income is discussed in results of operations.

For 2009, cash flows from operating activities decreased \$0.9 million to \$18.5 million. As described more fully in the Results of Operations section above, lower earnings was the primary reason for the decrease in cash flow. The \$18.5 million of net cash flow from operations enabled us to fund approximately 92% of our utility plant expenditures internally for the period, with the remainder funded by bank lines of credit and other loan commitments.

For 2008, cash flows from operating activities increased \$0.3 million to \$19.4 million, as compared to the prior year. This increase was primarily attributable to higher net income and depreciation. The \$19.4 million of net cash flow from operations enabled us to fund approximately 64% 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. During 2009, we received rate relief for Middlesex, Tidewater and Southern Shores and we have filed for a base rate increase for Middlesex. 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 NJBPU, DEPSC or PAPUC will approve any or all future requested increases.

Capital Expenditures and Commitments

To fund our capital program, we use internally generated funds, short term and long term debt borrowings, and when market conditions are favorable, proceeds from sales of common stock under our DRP and offerings to the public.

The table below summarizes our estimated capital expenditures for the years 2010-2012.

	<i>(Millions)</i>			
	2010	2011	2012	2010-2012
Mains	\$11,105	\$ 3,913	\$ 3,831	\$18,849
Service Lines	1,172	1,112	1,112	3,396
RENEW Program*	3,500	4,000	4,000	11,500
Information Technology Systems	4,638	424	272	5,334
Meters	2,502	2,440	2,440	7,382
Hydrants	641	524	591	1,756
Plant Improvements	8,606	10,333	17,578	36,517
Other General Infrastructure Needs	2,169	1,194	998	4,361
Total Estimated Capital Expenditures	\$34,333	\$23,940	\$30,822	\$89,095

* Program to clean and cement unlined mains in the Middlesex System

The actual amount and timing of capital expenditures is dependent on customer growth, residential new home construction and sales and project scheduling.

To pay for our capital program in 2010, we plan on utilizing:

- Internally generated funds
- Proceeds from an anticipated common stock offering in the second quarter of 2010
- Proceeds from the sale of common stock through the DRP
- Funds available and held in trust under existing New Jersey State Revolving Fund (SRF) loans (currently, \$4.1 million) and Delaware SRF loans (currently, \$1.9 million) and, if available, proceeds from 2010 Delaware and New Jersey SRF programs. The SRF programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks.
- Funds available under a Tidewater DEPSC approved loan (up to \$10.0 million available through June 30, 2010)
- Short-term borrowings, if necessary, through \$58.0 million of available lines of credit with several financial institutions. As of December 31, 2009, we had \$42.9 million outstanding against the lines of credit.

Sources of Liquidity

Short-term Debt. The Company had established lines of credit aggregating \$53.0 million as of December 31, 2009. At December 31, 2009, the outstanding borrowings under these credit lines were \$42.9 million at a weighted average interest rate of 1.53%. In January 2010, the Company increased its available lines of credit to \$58.0 million.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were \$40.0 million and \$16.4 million at 1.73% and 3.69% for the years ended December 31, 2009 and 2008, respectively.

Long-term Debt. Subject to regulatory approval, the Company periodically finances capital projects under 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 SRF loan program during 2009 and expect to participate in the 2010 Delaware SRF program for up to \$1.1 million. We will also participate in the New Jersey SRF program in 2010 for up to \$4.0 million.

In March 2009, Tidewater closed on a \$22.0 million DEPSC approved loan and immediately used \$7.0 million of the available funds to retire short-term debt. Terms for the new long-term debt include an interest rate of 6.59%, final maturity in April 2029 and equal principal payments over the life of the loan. In June 2009, Tidewater borrowed \$5.0 million at a rate of 7.05% with a final maturity in January 2030 and equal principal payments over the life of the loan. Tidewater can borrow the remaining \$10.0 million in whole or in increments at its discretion until June 30, 2010, at an interest rate based on market conditions and with a maximum final maturity date of January 2030.

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 DRP. The Company raised \$1.3 million through the issuance of shares under the DRP during 2009. On December 23, 2009, the Company announced a 5% purchase discount for optional cash purchases and reinvested dividends under the DRP. The discount applies to purchases made by the DRP between February 1, 2010 and June 1, 2010. As noted above, we anticipate issuing up to 2.0 million shares of common stock in the second quarter of 2010.

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, 2009.

	Payments Due by Period (Millions of Dollars)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term Debt	\$128.6	\$ 3.7	\$ 8.1	\$ 8.3	\$108.5
Notes Payable	42.9	42.9	—	—	—
Interest on Long-term Debt	95.0	6.2	12.0	11.3	65.5
Purchased Water Contracts	37.1	5.0	5.3	4.9	21.9
Wastewater Operations	43.4	4.3	9.0	9.5	20.6
Employee Retirement Plans ⁽¹⁾	5.0	5.0	—	—	—
Total	\$352.0	\$67.1	\$34.4	\$34.0	\$216.5

(1) Amounts are not determinable after one year due to the volatility of factors we used to determine estimated future contributions to our employee retirement benefit plan including market performance, discount rates, long term rates of return, healthcare trend rates, wage increases, participant eligibility and participant turnover.

Guarantees

USA-PA operates the City of Perth Amboy's (Perth Amboy) water and wastewater systems under a service contract agreement through June 30, 2018 (the Agreement). Under the Agreement, USA-PA receives a fixed fee and a variable fee based on increased system billing.

In connection with the Agreement, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately \$68.0 million in three series of bonds. In 1998, as part of the Agreement negotiations with Perth Amboy, Middlesex agreed to guarantee debt service payments on 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, 2009, approximately \$19.7 million of the Series C Serial Bonds remained outstanding. To date, Middlesex has not had to fund any debt service obligations as guarantor.

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. Our obligation in that case would be to pay scheduled debt service payments as they come due. 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. The Company regularly evaluates these estimates, assumptions and judgments, including those related to the calculation of pension and postemployment benefits, unbilled revenues, and the recoverability of certain assets,

including regulatory assets. The Company bases its estimates, assumptions and judgments on historical experience and current operating environment. Changes in any of the variables that are used for the Company's estimates, assumptions and judgments 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 88% 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 in the Financial Accounting Standards Board Accounting Standards Codification Topic 980 Regulated Operations (Regulatory Accounting).

In accordance with Regulatory Accounting, 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 will 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 and economic 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 material, are recorded upon approval of the amount by Perth Amboy.

Postemployment Retirement Benefit Plans

The costs for providing postemployment retirement benefits are dependent upon numerous factors, including actual plan experience and assumptions of future experience. Future postemployment retirement benefit plan obligations and expense will depend on future investment performance, changes in future discount rates and various other demographic factors related to the population participating in the Company's postemployment retirement benefit plans, all of which can change significantly in future years.

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

The Company has a postretirement benefit plan other than pensions (Other Benefits) 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.

The allocation by asset category of postemployment employee benefit plan assets at December 31, 2009 and 2008 is as follows:

Asset Category	Pension Plan		Other Benefits Plan		Target	Range
	2009	2008	2009	2008		
Equity Securities	59.2%	49.5%	40.4%	25.7%	60%	30-65%
Debt Securities	36.4%	47.0%	49.5%	59.6%	38%	25-70%
Cash	4.1%	3.5%	9.0%	14.7%	2%	0-10%
Commodities	0.3%	—%	1.1%	—%	2%	0%
Total	100.0%	100.0%	100.0%	100.0%		

The discount rate, compensation increase rate and long-term rate of return utilized for determining our postemployment employee benefit plans' future obligations as of December 31, 2009 are as follows:

	Pension Plan	Other Benefits Plan
Discount Rate	5.95%	5.95%
Compensation Increase	3.50%	3.50%
Long-term Rate of Return	8.00%	7.50%

For 2009, costs and obligations for our Other Benefits Plan assumed a 9.0% annual rate of increase in the per capita cost of covered healthcare benefits and assumed a decline of 1.0% per year through 2012 and 0.5% per year through 2014, resulting in an annual rate of increase in the per capita cost of covered healthcare benefits of 5% by year 2014.

The following is a sensitivity analysis for certain actuarial assumptions used in determining projected benefit obligations (PBO) and expenses for our postemployment employee benefit plans:

Pension Plan

Actuarial Assumptions	Estimated Increase/(Decrease) on PBO (000s)	Estimated Increase/(Decrease) on Expense (000s)
Discount Rate 1% Increase	(4,833)	(482)
Discount Rate 1% Decrease	6,025	608

Other Benefits Plan

Discount Rate 1% increase	(3,292)	(422)
Discount Rate 1% Decrease	4,192	577
Healthcare Cost Trend Rate 1% Increase	3,540	419
Healthcare Cost Trend Rate 1% Decrease	(2,833)	(323)

The discount rates used at our December 31 measurement date for determining future postemployment employee benefit plans' obligations and costs are determined based on market rates for long-term, high-quality corporate bonds specific to our Pension Plan and Other Benefits Plan's asset allocation. The expected long-term rate of return for Pension Plan and Other Benefits Plan assets is determined based on historical returns and our asset allocation.

Recent Accounting Standards

See Note 1(n) 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 2018 to 2038. Over the next twelve months, approximately \$3.7 million of the current portion of 26 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, 2009. 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, 2009, 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, 2009 as stated in their report which is included herein.



Dennis W. Doll
*President and
Chief Executive Officer*



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

Iselin, New Jersey
March 8, 2010

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, 2009, 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, 2009, 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 and the related statements of income, common stockholders' equity and comprehensive income, and cash flows of Middlesex Water Company, and our report dated March 8, 2010 expressed an unqualified opinion.



Reading, Pennsylvania
March 8, 2010

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, 2009 and 2008, and the related consolidated statements of income, common stockholders’ equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009. 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 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, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009 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), the Middlesex Water Company’s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 8, 2010 expressed an unqualified opinion.



Reading, Pennsylvania
March 8, 2010

CONSOLIDATED BALANCE SHEETS*(In thousands)*

		December 31,	
ASSETS		2009	2008
UTILITY PLANT:	Water Production	\$113,124	\$107,517
	Transmission and Distribution	293,269	283,759
	General	29,631	27,142
	Construction Work in Progress	17,547	11,653
	TOTAL	453,571	430,071
	Less Accumulated Depreciation	77,027	70,544
	UTILITY PLANT - NET	376,544	359,527
CURRENT ASSETS:	Cash and Cash Equivalents	4,278	3,288
	Accounts Receivable, net	10,616	9,510
	Unbilled Revenues	4,424	4,822
	Materials and Supplies (at average cost)	1,618	1,475
	Prepayments	1,109	1,481
	TOTAL CURRENT ASSETS	22,045	20,576
DEFERRED CHARGES AND OTHER ASSETS:	Unamortized Debt Expense	2,856	2,903
	Preliminary Survey and Investigation Charges	6,999	7,187
	Regulatory Assets	33,081	31,910
	Operations Contracts Fees Receivable	3,715	3,708
	Restricted Cash	5,266	7,049
	Non-utility Assets - Net	7,134	6,762
	Other	446	378
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	59,497	59,897
	TOTAL ASSETS	\$458,086	\$440,000
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	\$109,366	\$107,726
	Retained Earnings	30,265	30,077
	TOTAL COMMON EQUITY	139,631	137,803
	Preferred Stock	3,373	3,375
	Long-term Debt	124,910	118,217
	TOTAL CAPITALIZATION	267,914	259,395
CURRENT LIABILITIES:	Current Portion of Long-term Debt	3,710	17,985
	Notes Payable	42,850	25,877
	Accounts Payable	4,348	5,689
	Accrued Taxes	5,686	7,781
	Accrued Interest	1,861	2,053
	Unearned Revenues and Advanced Service Fees	861	842
	Other	1,352	1,243
	TOTAL CURRENT LIABILITIES	60,668	61,470
COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)			
DEFERRED CREDITS AND OTHER LIABILITIES:	Customer Advances for Construction	20,806	22,089
	Accumulated Deferred Investment Tax Credits	1,303	1,382
	Accumulated Deferred Income Taxes	27,788	21,733
	Employee Benefit Plans	25,723	25,540
	Regulatory Liability - Cost of Utility Plant Removal	6,738	6,197
	Other	275	963
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	82,633	77,904
CONTRIBUTIONS IN AID OF CONSTRUCTION		46,871	41,231
	TOTAL CAPITALIZATION AND LIABILITIES	\$458,086	\$440,000

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

<i>(In thousands except per share amounts)</i>	Years Ended December 31,		
	2009	2008	2007
OPERATING REVENUES	\$91,243	\$91,038	\$86,114
OPERATING EXPENSES:			
Operations	47,770	44,782	42,117
Maintenance	4,578	4,147	4,123
Depreciation	8,559	7,922	7,539
Other Taxes	10,175	10,168	9,664
TOTAL OPERATING EXPENSES	71,082	67,019	63,443
OPERATING INCOME	20,161	24,019	22,671
OTHER INCOME (EXPENSE):			
Allowance for Funds Used During Construction	1,001	667	537
Other Income	1,011	906	1,153
Other Expense	(286)	(271)	(163)
TOTAL OTHER INCOME, NET	1,726	1,302	1,527
INTEREST CHARGES	6,750	7,057	6,619
INCOME BEFORE INCOME TAXES	15,137	18,264	17,579
INCOME TAXES	5,160	6,056	5,736
NET INCOME	9,977	12,208	11,843
PREFERRED STOCK DIVIDEND REQUIREMENTS	208	218	248
EARNINGS APPLICABLE TO COMMON STOCK	\$ 9,769	\$11,990	\$11,595
Earnings per share of Common Stock:			
Basic	\$ 0.73	\$ 0.90	\$ 0.88
Diluted	\$ 0.72	\$ 0.89	\$ 0.87
Average Number of Common Shares Outstanding:			
Basic	13,454	13,317	13,203
Diluted	13,716	13,615	13,534
Cash Dividends Paid per Common Share	\$ 0.713	\$ 0.703	\$ 0.693

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

<i>(In thousands)</i>	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$9,977	\$12,208	\$11,843
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities:			
Depreciation and Amortization	9,217	8,530	8,176
Provision for Deferred Income Taxes and ITC	5,522	1,032	399
Equity Portion of AFUDC	(580)	(348)	(255)
Cash Surrender Value of Life Insurance	(387)	576	(271)
Gain on Disposal of Equity Investments	—	(86)	—
Gain on Sale of Real Estate	—	—	(267)
Stock Compensation Expense	386	288	273
Changes in Assets and Liabilities:			
Accounts Receivable	(1,112)	(807)	(2,752)
Unbilled Revenues	398	(213)	(596)
Materials & Supplies	(143)	(270)	101
Prepayments	372	(118)	(134)
Other Assets	(564)	(351)	(9)
Accounts Payable	(1,341)	147	986
Accrued Taxes	(2,096)	206	941
Accrued Interest	(192)	137	36
Employee Benefit Plans	(354)	(1,146)	239
Unearned Revenue & Advanced Service Fees	19	84	157
Other Liabilities	(616)	(465)	224
NET CASH PROVIDED BY OPERATING ACTIVITIES	18,506	19,404	19,091
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility Plant Expenditures, Including AFUDC of \$421 in 2009, \$319 in 2008, and \$282 in 2007	(20,128)	(30,336)	(23,777)
Restricted Cash	456	(591)	444
Proceeds from Real Estate Dispositions	—	—	273
NET CASH USED IN INVESTING ACTIVITIES	(19,672)	(30,927)	(23,060)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of Long-term Debt	(18,244)	(2,787)	(2,501)
Proceeds from Issuance of Long-term Debt	12,014	4,652	3,632
Net Short-term Bank Borrowings	16,973	19,627	6,250
Deferred Debt Issuance Expenses	(116)	(158)	(50)
Common Stock Issuance Expense	—	—	(15)
Restricted Cash	(25)	(40)	(12)
Proceeds from Issuance of Common Stock	1,251	1,187	1,147
Payment of Common Dividends	(9,582)	(9,353)	(9,141)
Payment of Preferred Dividends	(208)	(218)	(248)
Construction Advances and Contributions-Net	93	(128)	1,110
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,156	12,782	172
NET CHANGES IN CASH AND CASH EQUIVALENTS	990	1,259	(3,797)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,288	2,029	5,826
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$4,278	\$ 3,288	\$ 2,029
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:			
Utility Plant received as Construction Advances and Contributions	\$4,264	\$ 5,452	\$ 8,960
Transfer of Equity Investment to Employee Retirement Benefit Plans	—	\$ 132	\$ —
Long term Debt Deobligation	\$1,352	\$ —	\$ —
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:			
Cash Paid During the Year for:			
Interest	\$6,887	\$ 6,864	\$ 6,542
Interest Capitalized	(421)	\$ (319)	\$ (282)
Income Taxes	\$1,856	\$ 5,205	\$ 4,534

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CAPITAL STOCK AND LONG-TERM DEBT

<i>(In thousands)</i>	December 31,	
	2009	2008
Common Stock, No Par Value		
Shares Authorized - 40,000		
Shares Outstanding - 2009 - 13,519	\$109,366	\$107,726
2008 - 13,404		
Retained Earnings	30,265	30,077
TOTAL COMMON EQUITY	\$139,631	137,803
Cumulative Preference Stock, No Par Value:		
Shares Authorized - 134		
Shares Outstanding - 32		
Convertible:		
Shares Outstanding, \$7.00 Series - 14	1,457	1,457
Shares Outstanding, \$8.00 Series - 7	816	816
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1	100	102
Shares Outstanding, \$4.75 Series - 10	1,000	1,000
TOTAL PREFERRED STOCK	3,373	3,375
Long-term Debt:		
8.05%, Amortizing Secured Note, due December 20, 2021	2,581	2,695
6.25%, Amortizing Secured Note, due May 22, 2028	7,735	8,155
6.44%, Amortizing Secured Note, due August 25, 2030	5,787	6,067
6.46%, Amortizing Secured Note, due September 19, 2031	6,067	6,347
4.22%, State Revolving Trust Note, due December 31, 2022	622	657
3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025	3,687	3,689
3.49%, State Revolving Trust Note, due January 25, 2027	678	675
4.03%, State Revolving Trust Note, due December 1, 2026	903	939
4.00% to 5.00%, State Revolving Trust Bond, due September 1, 2021	625	660
0.00%, State Revolving Fund Bond, due September 1, 2021	436	500
3.64% State Revolving Trust Note, due July 1, 2028	395	389
3.64% State Revolving Trust Note, due January 1, 2028	132	140
6.59%, Amortizing Secured Note, due April 20, 2029	6,743	—
7.05%, Amortizing Secured Note, due January 20, 2030	5,000	—
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
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	483	538
4.25% to 4.63%, Series Y, due September 1, 2018	650	710
0.00%, Series Z, due September 1, 2019	1,118	1,230
5.25% to 5.75%, Series AA, due September 1, 2019	1,560	1,675
0.00%, Series BB, due September 1, 2021	1,447	1,566
4.00% to 5.00%, Series CC, due September 1, 2021	1,790	1,895
5.10%, Series DD, due January 1, 2032	6,000	6,000
0.00%, Series EE, due August 1, 2023	5,642	6,693
3.00% to 5.50%, Series FF, due August 1, 2024	6,935	8,025
0.00%, Series GG, due August 1, 2026	1,530	1,619
4.00% to 5.00%, Series HH, due August 1, 2026	1,810	1,880
0.00%, Series II, due August 1, 2027	1,619	1,708
3.40% to 5.00%, Series JJ, due August 1, 2027	1,690	1,750
0.00%, Series KK, due August 1, 2028	1,705	1,750
5.00% to 5.50%, Series LL, due August 1, 2028	1,750	1,750
SUBTOTAL LONG-TERM DEBT	128,620	136,202
Less: Current Portion of Long-term Debt	(3,710)	(17,985)
TOTAL LONG-TERM DEBT	\$124,910	\$118,217

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

<i>(In thousands)</i>	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2007	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 - Employees	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 - Employees	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
Net Income			9,977		9,977
Dividend Reinvestment & Common Stock Purchase Plan	84	1,254			1,254
Restricted Stock Award, Net - Employees	29	365			365
Restricted Stock Award - Board Of Directors	2	21			21
Cash Dividends on Common Stock			(9,582)		(9,582)
Cash Dividends on Preferred Stock			(208)		(208)
Other			1		1
Balance at December 31, 2009	13,519	\$109,366	\$30,265	\$ —	\$139,631

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), Utility Service Affiliates (Perth Amboy) Inc. (USA-PA) and Twin Lakes Utilities, Inc. (Twin Lakes). Southern Shores Water Company, LLC (Southern Shores) and White Marsh Environmental Systems, Inc. (White Marsh) are wholly-owned subsidiaries of Tidewater. The financial statements for Middlesex and its wholly-owned subsidiaries (the Company) are reported on a consolidated basis. All significant intercompany accounts and transactions have been eliminated.

Middlesex Water Company has operated as a water utility in New Jersey since 1897, in Delaware, through our wholly-owned subsidiary, Tidewater, since 1992 and in Pennsylvania, through our wholly-owned subsidiary, Twin Lakes, since November 2009. We are in the business of collecting, treating, distributing and selling water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate a New Jersey municipal water and wastewater system under contract and provide wastewater services in New Jersey and Delaware through our subsidiaries. Our rates charged to customers for water and wastewater services, the quality of services we provide and certain other matters are regulated in New Jersey, Delaware and Pennsylvania by the New Jersey Board of Public Utilities (NJBPUC), Delaware Public Service Commission (DEPSC) and Pennsylvania Public Utilities Commission (PAPUC), respectively. 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 NJBPUC. Tidewater, TESI and Southern Shores maintain their accounts in accordance with DEPSC requirements. Twin Lakes maintains its accounts in accordance with PAPUC requirements.

(c) Utility Plant – 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, 2009, 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 – 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, 2009, 2008 and 2007. These rates have been approved by the NJBPUC, DEPSC or PAPUC:

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 office buildings, 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) Preliminary Survey and Investigation (PS&I)

Costs – In the design of water and wastewater systems that the Company ultimately intends to construct, own and operate certain expenditures are incurred to advance those project activities. These PS&I costs are recorded as deferred charges on the balance sheet because these costs are expected to be recovered through future rates charged to customers as the underlying projects are placed into service as utility plant. If it is subsequently determined that costs for a project recorded as PS&I are not recoverable through rates charged to our customers, the applicable PS&I

costs are recorded as a charge to the income statement at that time.

(f) Customers' Advances for Construction (CAC) –

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 CAC. 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 (CIAC) – CIAC include direct non-refundable contributions of water utility plant and/or cash and the portion of CAC that becomes non-refundable.

CAC and CIAC are not depreciated in accordance with regulatory requirements. In addition, these amounts reduce the investment base for purposes of setting rates.

(g) 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, 2009, 2008 and 2007 approximately \$1.0 million, \$0.7 million and \$0.5 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 AFUDC rate for the years ended December 31, 2009, 2008 and 2007 for Middlesex and Tidewater is as follows:

	For The Years Ended December 31,		
	2009	2008	2007
Middlesex	7.65%	7.65%	7.65%
Tidewater	8.24%*	8.33%	7.94%

*8.33% through August 2009

(h) Accounts Receivable – We record bad debt expense based on historical write-offs combined with an evaluation of current conditions. The allowance for doubtful accounts was \$0.4 million and \$0.2 million at December 31, 2009 and December 31, 2008, respectively. Bad debt expense for the years ended December 31, 2009, 2008 and 2007 was \$0.6 million, \$0.2 million and \$0.1 million, respectively.

(i) 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 fixed service charges, 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 and economic conditions. Actual billings may differ from our estimates. 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 LineCareSM 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.

(j) 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.

(k) 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. For more information on income taxes, see Note 3 – Income Taxes.

(l) 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.

(m) 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.

(n) Recent Accounting Pronouncements – In June 2009, the Financial Accounting Standards Board (FASB) issued guidance on “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles”, which establishes the FASB Accounting Standards Codification (ASC) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. Under the ASC, new standards will be issued in the form of Accounting Standards Updates (ASU). This guidance is effective for interim and annual periods ending after September 15, 2009. The adoption of this standard did not have an impact on our financial position or results of operations.

Topic 320, Investments – Debt and Equity Securities

In April 2009, the FASB issued guidance on “Recognition and Presentation of Other-Than-Temporary Impairments”. This guidance improves presentation and disclosures in financial statements for other-than-temporary impairments of debt and equity securities and expands on the factors companies should consider when evaluating debt securities for other-than-temporary impairments. The change is effective for interim and annual reporting periods ending after June 15, 2009. This was adopted as of June 30, 2009, and had no effect on results of operations, cash flows or financial position.

Topic 715, Compensation – Retirement Benefits

In December 2008, the FASB issued guidance on “Employers’ Disclosures about Postretirement Benefit Plan Assets” which addresses employer’s disclosures

about plan assets of a defined benefit pension or other postretirement plan, including information related to a company’s:

- plan assets
- plan investment policies and strategies
- significant concentrations of risk within plan assets, and
- inputs and valuation techniques used to measure the fair value of plan assets and the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period.

The disclosures about plan assets are required for fiscal years ending after December 15, 2009. This was adopted as of December 31, 2009, and had no effect on results of operations, cash flows or financial position. Adoption of the guidance did require additional disclosures in Note 7 – Employee Benefit Plans.

Topic 820, Fair Value Measurements and Disclosures (ASC 820)

In September 2006, the FASB issued guidance on “Fair Value Measurements” (ASC 820), which establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance was adopted January 1, 2008 for financial assets and financial liabilities and did not have a material impact on the Company’s financial statements. In February 2008, the FASB issued further guidance which deferred the effective date of ASC 820 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities. This guidance was adopted as of January 1, 2009 and had no effect on results of operations, cash flows or financial position.

In April 2009, the FASB issued guidance on “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.” Fair value has been defined by FASB as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This guidance provides additional information for estimating fair value in accordance with ASC 820 when the volume and level of activity for the asset or liability have significantly decreased. In addition, it includes guidance on identifying circumstances that indicate a transaction is not orderly. This guidance was adopted as of June 30, 2009, and had no effect on results of operations, cash flows or financial position.

In April 2009, the FASB issued guidance on “Interim Disclosures about Fair Value of Financial Instruments.” This guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This guidance was adopted as of June 30, 2009, and resulted in additional interim disclosures of the fair values of financial instruments in our Quarterly Reports on Form 10-Q, which previously had only been required annually. Adoption of this guidance resulted in no change to accounting policies and had no effect on results of operations, cash flows or financial position.

In August 2009, the FASB issued ASU 2009-05. The update provides additional guidance for measuring the fair value of liabilities and clarifies that the quoted price for the identical liability, when traded as an asset in an active market, is a Level 1 measurement, providing there are no adjustments to the quoted price. Alternatively, when no quoted price is available, the ASU affirms the use of other valuation techniques outlined in ASC 820. ASU 2009-05 is effective for the first interim or annual reporting period beginning after the ASU’s issuance. This guidance was adopted as of October 1, 2009, and had no effect on results of operations, cash flows or financial position.

Topic 855, Subsequent Events

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (ASC 855), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted the provisions effective June 30, 2009, which had no effect on results of operations, cash flows or financial position.

(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 88% 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 FASB ASC Topic 980 *Regulated Operations* (Regulatory Accounting).

In accordance with Regulatory Accounting, 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 will be treated differently by the regulators in the future. For additional information, see Note 2 – Rate and Regulatory Matters.

(p) Postemployment Employee Benefit Plans - 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 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.

The Company’s costs for providing postemployment employee benefits are dependent upon numerous factors, including actual plan experience and assumptions of future experience. Postemployment employee benefit plan obligations and expense are determined based on investment performance, discount rates and various other demographic factors related to the population participating in the Company’s postemployment employee benefit plans, all of which can change significantly in future years. For more information on the Company’s Postemployment Employee Benefit Plans, see Note 7 – Employee Benefit Plans.

Note 2 - Rate and Regulatory Matters

Rate Matters

On January 26, 2009, Tidewater filed an application with the DEPSC seeking permission to increase its base rates by 32.54%, which was necessitated by increased costs of operations, maintenance and taxes, as well as capital investment since Tidewater’s last rate filing in April of 2006. On September 9, 2009, the DEPSC approved a base rate settlement that had been reached amongst the parties that reflects an overall increase of 14.95%. This rate increase approval is expected to generate additional annual revenues of \$3.0 million based on a 10.0% return on equity.

On August 17, 2009, Middlesex filed an application with the NJBPU seeking permission to increase its base rates by 26.03%, or \$15.1 million. The request was made necessary by increased costs of operations, chemicals and fuel, electricity, taxes, labor and benefits,

decreases in industrial and commercial customer demand patterns as well as capital investment of approximately \$39.0 million since Middlesex' last rate filing in April of 2007. Discovery by the intervening parties has begun. We cannot predict whether the NJBPU will ultimately approve, deny, or reduce the amount of the request. A decision by the NJBPU is not expected until the second quarter of 2010.

On July 1, 2009, Middlesex implemented a NJBPU approved Purchased Water Adjustment Clause (PWAC) in order to recover increased costs of \$1.0 million to purchase untreated water from the New Jersey Water Supply Authority and treated water from a non-affiliated regulated water utility.

Effective January 1, 2009, Tidewater received approval from the DEPSC to increase their Distribution System Improvement Charge (DSIC) from 2.94% to 5.25%. This rate was set to zero in conjunction with the interim rates approved in the base rate case described above. On December 22, 2009, Tidewater received approval from the DEPSC to increase their DSIC from 0% to 1.11% effective January 1, 2010.

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%.

Effective December 18, 2008, Pinelands Water and Pinelands Wastewater implemented NJBPU 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 NJBPU 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%.

Regulatory Matters

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, <i>(Thousands of Dollars)</i>			
Regulatory Assets	2009	2008	Remaining Recovery Periods
Postretirement			
Benefits	\$21,167	\$20,679	Various
Income Taxes	11,356	10,905	Various
Tank Painting	168	189	3-7 years
Rate Cases and Other	390	137	Up to 2 years
Total	\$33,081	\$31,910	

Postretirement benefits include pension and other postretirement benefits that have been recorded on the Consolidated Balance Sheet in accordance with the guidance provided in *Topic 715, Compensation – Retirement Benefits*. 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, 2009 and 2008, the Company has approximately \$6.7 million and \$6.2 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 \$0.7 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. The Company expects to recover training costs of approximately \$0.6 million associated with implementation of a new information technology system in future rates. These deferred costs have been recorded in construction work in process as of December 31, 2009.

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)		
	2009	2008	2007
Income Tax at Statutory Rate	\$5,147	\$6,253	\$6,021
Tax Effect of:			
Utility Plant Related	(247)	(725)	(595)
State Income Taxes –			
Net	339	309	350
Employee Benefits	(86)	202	(49)
Other	7	17	9
Total Income Tax Expense	\$5,160	\$6,056	\$5,736

Income tax expense is comprised of the following:

	Years Ended December 31, (Thousands of Dollars)		
	2009	2008	2007
Current:			
Federal	\$ (208)	\$4,651	\$4,894
State	35	392	413
Deferred:			
Federal	4,933	1,018	634
State	479	74	117
Investment Tax Credits	(79)	(79)	(322)
Total Income Tax Expense	\$5,160	\$6,056	\$5,736

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 return for 2007 is currently underway. 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. The Company is not aware of any uncertain tax positions that could result in a future tax liability.

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)	
	2009	2008
Utility Plant Related	\$31,942	\$26,224
Customer Advances	(3,914)	(4,036)
Employee Benefits	217	(65)
Other	(457)	(390)
Total Deferred Tax Liability	\$27,788	\$21,733

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 (the Agreement) through June 30, 2018. Under the Agreement, USA-PA receives a fixed fee and a variable fee based on increased system billing. Scheduled fixed fee payments for 2009, 2008 and 2007 were \$8.2 million, \$8.0 million and \$7.8 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. In 1998, as part of Agreement negotiations, Middlesex agreed to guarantee debt service payments on one of those series of bonds, designated the Series C Serial Bonds, 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, 2009, approximately \$19.7 million of the Series C Serial Bonds remained outstanding. To date, Middlesex has not had to fund any debt service obligations as guarantor.

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.

Our obligation in that case would be to pay scheduled debt service payments as they come due. 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:

Purchased Water	Years Ended December 31, (Millions of Dollars)		
	2009	2008	2007
Untreated	\$2.4	\$2.4	\$2.4
Treated	2.6	2.1	2.1
Total Costs	\$5.0	\$4.5	\$4.5

Construction – The Company may spend up to \$34.3 million in 2010, \$23.9 million in 2011 and \$30.8 million in 2012 on its construction program. The actual amount and timing of capital expenditures is dependent on customer growth, residential new home construction and sales and project scheduling. There is no assurance that projected customer growth and residential new home construction and sales will occur.

Litigation – The Company is a defendant in lawsuits in the normal course of business. We believe the resolution of pending claims and legal proceedings

will not have a material adverse effect on the Company's consolidated financial statements.

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

Note 5 – Short-term Borrowings

Information regarding the Company's short-term borrowings for the years ended December 31, 2009 and 2008 is summarized below:

	(Millions of Dollars)	
	2009	2008
Established Lines at Year-End	\$53.0	\$36.0
Maximum Amount Outstanding	44.2	25.9
Average Outstanding	40.0	16.4
Notes Payable at Year-End	42.9	25.9
Weighted Average Interest Rate	1.73%	3.69%
Weighted Average Interest Rate at Year-End	1.53%	2.30%

The maturity dates for the \$42.9 million borrowings outstanding as of December 31, 2009 are: \$7.0 million in January 2010, \$7.0 million in February 2010 and \$20.5 million in March 2010 and \$8.4 million in April 2010. In January 2010, the Company increased its available lines of credit to \$58.0 million.

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 NJBPU or DEPSC, except where otherwise noted.

Common Stock

On February 3, 2010, the Company filed a petition with the NJBPU seeking approval to issue up to 2.0 million shares of its common stock in the form of a follow-on offering during the second quarter of 2010. The proceeds from the common stock offering will be used to retire short term debt.

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, 2009, is 1,794,801. On December 23, 2009, the Company announced a 5% purchase discount for optional cash purchases and reinvested dividends under the DRP. The discount applies to purchases made by the DRP between February 1, 2010 and June 1, 2010.

The Company also has shares authorized and outstanding under a restricted stock plan, which is described in Note 7 – Employee Benefit Plans.

The Company maintains a stock plan for its outside directors (the Outside Director Stock Compensation Plan). The maximum number of shares authorized for grant under the Outside Director Stock Compensation Plan is 100,000. In 2009, 1,554 shares of common stock were granted and issued to the Company's outside directors under the Outside Director Stock Compensation Plan. As of December 31, 2009, there are 98,446 shares available for future awards under Outside Director Stock Compensation Plan.

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, 2009, 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, 2009 and 2008, 31,873 and 31,898 shares of preferred stock presently authorized were outstanding and there were no dividends in arrears.

The Company may not pay any dividends on its common stock unless full cumulative dividends to the preceding dividend date for all outstanding shares of preferred stock have been paid or set aside for payment. All such preferred dividends have been paid. In addition, if Middlesex were to liquidate, holders of preferred stock would be paid back the stated value of their preferred shares before any distributions could be made to common stockholders.

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. During 2009, the Company repurchased 25 shares of the \$7.00 Series Cumulative and Convertible Preferred Stock.

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 March 2009, Tidewater closed on a \$22.0 million DEPSC approved loan and immediately borrowed \$7.0 million at a rate of 6.59% with a final maturity in April 2029. In June 2009, Tidewater borrowed \$5.0 million at a rate of 7.05% with a final maturity in January 2030. Tidewater can borrow the remaining \$10.0 million in whole or in increments at its discretion until June 30, 2010, at an interest rate based on market conditions and with a maximum final maturity date of January 2030.

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.

First Mortgage Bonds Series S through W and Series DD are term bonds with single maturity dates. Principal repayments for all series of the Company's long-term debt extend beyond 2014. The aggregate annual principal repayment obligations for all long-term debt over the next five years are shown below:

Year	(Millions of Dollars)
	Annual Maturities
2010	\$3.7
2011	\$4.0
2012	\$4.1
2013	\$4.1
2014	\$4.2

The weighted average interest rate on all long-term debt at December 31, 2009 and 2008 was 5.16% and 5.15%, respectively. Except for the Amortizing Secured Notes and Series U First Mortgage Bonds, which was repaid in 2009, all of the Company's outstanding long-term debt has been issued through the New Jersey Economic Development Authority (\$57.5 million), the New Jersey Environmental Infrastructure Trust (NJEIT) program (\$30.8 million) and the Delaware SRF program (\$6.4 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 KK and LL proceeds can only be used for the 2010 main cleaning and cement lining program. All other bond issuance balances in restricted cash are for debt service requirements.

Due to expenditures being less than anticipated on our Series EE and FF NJEIT SRF loan programs, in 2009, the NJEIT deobligated \$1.4 million of principal payments on those Series. As a result of this transaction, long-term debt and restricted cash decreased \$1.4 million.

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, 2009. 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.

	<i>(In Thousands, Except per Share Amounts)</i>					
	2009		2008		2007	
	Income	Shares	Income	Shares	Income	Shares
Basic:						
Net Income	\$9,977	13,454	\$12,208	13,317	\$11,843	13,203
Preferred Dividend	(208)		(218)		(248)	
Earnings Applicable to Common Stock	\$9,769	13,454	\$11,990	13,317	\$11,595	13,203
Basic EPS	\$ 0.73		\$ 0.90		\$ 0.88	
Diluted:						
Earnings Applicable to Common Stock	\$9,769	13,454	\$11,990	13,317	\$11,595	13,203
\$7.00 Series Dividend	97	166	97	167	97	167
\$8.00 Series Dividend	56	96	66	131	96	164
Adjusted Earnings Applicable to Common Stock	\$9,922	13,716	\$12,153	13,615	\$11,788	13,534
Diluted EPS	\$ 0.72		\$ 0.89		\$ 0.87	

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments for which it is practicable to estimate that value. The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, trade receivables, accounts payable and

notes payable approximate their respective fair values due to the short-term maturities of these instruments. The fair value of the Company's long-term debt relating to First Mortgage and SRF bonds is based on quoted market prices for similar issues. The carrying amount and fair market value of the Company's bonds were as follows:

	<i>At December 31,</i>			
	<i>(Thousands of Dollars)</i>			
	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
First Mortgage Bonds	\$87,230	\$84,429	\$105,290	\$95,171
State Revolving Bonds	\$ 1,061	\$ 1,091	\$ 1,160	\$ 1,170

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 \$40.3 million and \$29.8 million at December 31, 2009 and 2008, respectively. Customer advances for construction have a carrying amount of \$20.8 million and \$22.1 million at December 31, 2009 and 2008, 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 Benefits

The Company's Pension Plan 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 contribution, the eligible employee must be employed by the Company on December 31st of the year to which the award relates. In addition, the Company maintains an unfunded supplemental plan for its executive officers. The Accumulated Benefit Obligation for the Company's Pension Plan at December 31, 2009 and 2008 was \$30.8 million and \$27.5 million, respectively.

Other Benefits

The Company's Other Benefits Plan covers substantially all of its retired employees. Employees hired after March 31, 2007 are not eligible to participate in this plan. Coverage includes healthcare and life insurance. 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 statement of Financial Accounting Standard 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 asset related to this transition obligation at December 31, 2009 and 2008 was \$0.3 million and \$0.4 million, respectively.

Regulatory Treatment of Over/Underfunded Pension and Postretirement Obligations

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 FASB ASC Topic 980 *Regulated Operations*. Based on prior regulatory practice, and in accordance with the guidance in Topic 980, the Company records underfunded Pension Plan and Other Benefits Plan obligations, which otherwise would be recognized as Other Comprehensive Income under Topic 715, Compensation – Retirement Benefits, as a Regulatory Asset, and expects to recover those costs in rates charged to customers.

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 2009 and 2008.

	December 31, (Thousands of Dollars)			
	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Change in Projected Benefit Obligation:				
Beginning Balance	\$ 34,352	\$ 30,167	\$ 18,771	\$ 15,067
Service Cost	1,372	1,248	891	775
Interest Cost	2,101	1,950	1,086	1,010
Actuarial Loss	2,217	2,637	2,508	2,420
Benefits Paid	(1,731)	(1,650)	(520)	(501)
Ending Balance	\$ 38,311	\$ 34,352	\$ 22,736	\$ 18,771
Change in Fair Value of Plan Assets:				
Beginning Balance	\$ 20,036	\$ 24,568	\$ 7,239	\$ 7,025
Actual Return on Plan Assets	4,110	(5,390)	1,066	(1,085)
Employer Contributions	2,883	2,508	1,895	1,800
Benefits Paid	(1,731)	(1,650)	(520)	(501)
Ending Balance	\$ 25,298	\$ 20,036	\$ 9,680	\$ 7,239
Funded Status	\$(13,013)	\$(14,316)	\$ 13,056	\$(11,532)
Amounts Recognized in the Consolidated Balance Sheets consist of:				
Current Liability	(346)	(308)	—	—
Noncurrent Liability	(12,667)	(14,008)	(13,056)	(11,532)
Net Liability Recognized	\$(13,013)	\$(14,316)	\$(13,056)	\$(11,532)

	Years Ended December 31, (Thousands of Dollars)					
	Pension Benefits			Other Benefits		
	2009	2008	2007	2009	2008	2007
Components of Net Periodic Benefit Cost						
Service Cost	\$1,372	\$1,248	\$1,296	\$ 891	\$ 775	\$ 821
Interest Cost	2,101	1,950	1,807	1,086	1,010	895
Expected Return on Plan Assets	(1,602)	(1,938)	(1,819)	(595)	(581)	(481)
Amortization of Net Transition Obligation	—	—	—	135	135	135
Amortization of Net Actuarial Loss	615	—	75	493	287	337
Amortization of Prior Service Cost	10	10	10	—	—	—
Net Periodic Benefit Cost	\$2,496	\$1,270	\$1,369	\$2,010	\$1,626	\$1,707

Amounts that are expected to be amortized from Regulatory Assets into Net Periodic Benefit Cost in 2010 are as follows:

	(Thousands of Dollars)	
	Pension Benefits	Other Benefits
Actuarial Loss	\$ 506	\$531
Prior Service Cost	10	—
Transition Obligation	—	135

The discount rate and compensation increase rate for determining our postemployment employee benefit plans' benefit obligations and costs as of December 31, 2009, 2008 and 2007, respectively, are as follows:

	Pension Benefits			Other Benefits		
	2009	2008	2007	2009	2008	2007
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	5.95%	6.17%	6.59%	5.95%	6.12%	6.59%
Benefit Cost	6.17%	6.59%	5.89%	6.12%	6.59%	5.89%
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.

For 2009, costs and obligations for our Other Benefits Plan assumed a 9.0% annual rate of increase in the per capita cost of covered healthcare benefits and assumed a decline of 1.0% per year through 2012 and 0.5% per year through 2014, resulting in an annual rate of increase in the per capita cost of covered healthcare benefits of 5% by year 2014.

A one-percentage point change in assumed healthcare cost trend rates would have the following effects:

	<i>(Thousands of Dollars)</i>	
	1 Percentage Point	
	Increase	Decrease
Effect on Current Year's Service and Interest Cost	\$ 419	\$ (323)
Effect on Projected Benefit Obligation	\$3,540	\$(2,833)

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

Year	<i>(Thousands of Dollars)</i>	
	Pension Benefits	Other Benefits
2010	\$ 1,748	\$ 605
2011	1,761	665
2012	1,769	737
2013	1,872	816
2014	1,878	905
2015-2019	10,265	5,807
Totals	\$19,293	\$9,535

Benefit Plans Assets

The allocation of plan assets at December 31, 2009 and 2008 by asset category is as follows:

Asset Category	Pension Plan		Other Benefits		Target	Range
	2009	2008	2009	2008		
Equity Securities	59.2%	49.5%	40.4%	25.7%	60%	30-65%
Debt Securities	36.4%	47.0%	49.5%	59.6%	38%	25-70%
Cash	4.1%	3.5%	9.0%	14.7%	2%	0-10%
Commodities	0.3%	—%	1.1%	—%	0%	0%
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 (2.7% of total plan assets) and \$0.7 million (3.4 % of total plan assets) at December 31, 2009 and 2008, respectively.

Fair Value Measurements

Accounting guidance provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in accessible active markets.
- Level 2 – Inputs to the valuation methodology that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. If the asset or liability has a specified contractual term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3- Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Certain investments in cash and cash equivalents, equity securities, and commodities are valued based on quoted market prices in active markets and are classified as Level 1 investments. Certain investments in cash and cash equivalents, equity securities and fixed income securities are valued using prices received from pricing vendors that utilize observable inputs and are therefore classified as Level 2 investments.

The following table presents Middlesex's pension plan and other benefits plan assets measured and recorded at fair value within the fair value hierarchy as of December 31, 2009:

	<i>(Thousands of Dollars)</i>			
	Level 1	Level 2	Level 3	Total
Pension Plan Assets				
Equity Securities	\$10,515	\$ 4,467	—	\$14,982
Fixed Income Securities	—	9,198	—	9,198
Cash and Cash Equivalents	435	598	—	1,033
Commodities	85	—	—	85
Total	\$11,035	\$14,263	—	\$25,298
Other Benefits Plan Assets				
Equity Securities	\$ 3,913	\$ —	—	\$ 3,913
Fixed Income Securities	—	4,792	—	4,792
Cash and Cash Equivalents	—	873	—	873
Commodities	102	—	—	102
Total	\$ 4,015	\$ 5,665	—	\$ 9,680

Benefit Plans Contributions

For the pension plan, Middlesex made total cash contributions of \$2.9 million in 2009 and expects to make cash contributions of approximately \$3.0 million in 2010.

For the postretirement health benefit plan, Middlesex made total cash contributions of \$1.9 million in 2009 and expects to make contributions of approximately \$2.0 million in 2010.

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 each of the years ended December 31, 2009 and 2008 and \$0.4 million for the year ended December 31, 2007.

For those employees hired after March 31, 2007 and still employed on December 31, 2009, the Company approved and funded discretionary contribution of \$0.1 million that was based on 2.5% of eligible 2009 compensation. For the years ended December 31, 2008 and 2007, the Company made discretionary contributions of \$0.1 million, respectively, for those employees hired after March 31, 2007.

Stock-Based Compensation

The Company has a stock compensation plan for its employees (the Employee Stock Compensation Plan). The Company maintains an escrow account for 93,415 shares of the Company's common stock for the Employee Stock Compensation Plan. Such stock is subject to an agreement requiring forfeiture by the employee in the event of termination of employment within five years of the award other than as a result of retirement, death, disability or change in control. The maximum number of shares authorized for grant under the 2008 Restricted Stock Plan is 300,000 shares, for which there remains 248,405 unissued shares.

The Company recognizes compensation expense at fair value for the restricted stock awards in accordance with FASB ASC Topic 715, Compensation – Retirement Benefits. 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:

	Shares (thousands)	Unearned Compensation (thousands)	Weighted Average Grant Price
Balance, January 1, 2007	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	
Granted	30	448	\$15.11
Vested	(17)		
Forfeited	(1)	(6)	
Amortization of Compensation Expense		(380)	
Balance, December 31, 2009	93	\$990	

The fair value of vested restricted shares was \$0.2 million for each of the years ended December 31, 2009, December 31, 2008 and December 31, 2007.

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, Delaware and Pennsylvania. This segment also includes regulated wastewater systems in New Jersey and Delaware. The Company is subject to regulations as to its rates, services and other matters by the states of New Jersey, Delaware and Pennsylvania 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.

Operations by Segments:	Years Ended December 31, (Thousands of Dollars)		
	2009	2008	2007
Revenues:			
Regulated	\$80,910	\$81,118	\$77,113
Non – Regulated	10,857	10,327	9,392
Inter-segment Elimination	(524)	(407)	(391)
Consolidated Revenues	\$91,243	\$91,038	\$86,114
Operating Income:			
Regulated	\$18,117	\$22,132	\$21,351
Non – Regulated	2,044	1,887	1,320
Consolidated Operating Income	\$20,161	\$24,019	\$22,671
Depreciation:			
Regulated	\$ 8,401	\$ 7,798	\$ 7,408
Non – Regulated	158	124	131
Consolidated Depreciation	\$ 8,559	\$ 7,922	\$ 7,539
Other Income, Net:			
Regulated	\$ 1,565	\$ 1,077	\$ 1,643
Non – Regulated	337	387	—
Inter-segment Elimination	(176)	(162)	(116)
Consolidated Other Income, Net	\$ 1,726	\$ 1,302	\$ 1,527
Interest Expense:			
Regulated	\$ 6,733	\$ 6,981	\$ 6,619
Non – Regulated	193	238	116
Inter-segment Elimination	(176)	(162)	(116)
Consolidated Interest Charges	\$ 6,750	\$ 7,057	\$ 6,619
Net Income:			
Regulated	\$ 8,652	\$10,976	\$11,120
Non – Regulated	1,325	1,232	723
Consolidated Net Income	\$ 9,977	\$12,208	\$11,843
Capital Expenditures:			
Regulated	\$20,104	\$29,095	\$23,433
Non – Regulated	24	1,241	344
Total Capital Expenditures	\$20,128	\$30,336	\$23,777
		As of December 31,	
		2009	2008
Assets:			
Regulated	\$451,734	\$433,109	
Non – Regulated	11,022	11,537	
Inter-segment Elimination	(4,670)	(4,646)	
Consolidated Assets	\$458,086	\$440,000	

Note 9 - Quarterly Operating Results - Unaudited

Operating results for each quarter of 2009 and 2008 are as follows:

2009	<i>(Thousands of Dollars, Except per Share Data)</i>				
	1st	2nd	3rd	4th	Total
Operating Revenues	\$20,583	\$23,083	\$25,498	\$22,079	\$91,243
Operating Income	3,002	5,547	7,324	4,288	20,161
Net Income	1,361	2,846	4,027	1,743	9,977
Basic Earnings per Share	\$ 0.10	\$ 0.21	\$ 0.30	\$ 0.12	\$ 0.73
Diluted Earnings per Share	\$ 0.10	\$ 0.21	\$ 0.29	\$ 0.12	\$ 0.72
2008					
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

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

	2009			2008		
	High	Low	Dividend	High	Low	Dividend
First Quarter	\$17.71	\$11.64	\$0.1775	\$19.83	\$17.25	\$0.1750
Second Quarter	15.29	12.61	0.1775	19.23	16.59	0.1750
Third Quarter	15.89	13.62	0.1775	18.52	15.68	0.1750
Fourth Quarter	17.91	14.74	0.1800	17.93	12.05	0.1775

Middlesex Water Company has paid quarterly dividends on its common stock each year since 1912 and has increased dividends for 37 consecutive years. The following shows the anticipated Common Stock dividend record and payment dates for the year 2010:

Schedule of Dividend Dates for the Year 2010*

	Declaration Dates	Record Dates	Payment Dates	Ex. Dividend Dates
Common	January 26 April 27 July 27 October 26	February 15 May 14 August 13 November 15	March 1 June 1 September 1 December 1	February 11 May 12 August 11 November 11
Preferred	December 16** March 24 June 22 September 28	January 15 April 15 July 15 October 15	February 1 May 3 August 2 November 1	January 13 April 13 July 13 October 13

* Subject to approval by Board of Directors

**2009

Board of Directors

J. Richard Tompkins^{2,6}
Chairman of the Board

Dennis W. Doll
*Vice Chairman of the Board,
President and Chief Executive Officer*

Annette Catino^{1,2*,5*,6}
*President and Chief Executive Officer,
QualCare Alliance Networks, Inc.*

John C. Cutting^{1,2*,5*,6}
*Retired, formerly Senior Engineer,
Science Applications International Corporation*

Steven M. Klein^{1,3,5}
*Executive Vice President and
Chief Financial Officer of
Northfield Bancorp, Inc.*

John R. Middleton, MD^{1,3,4}
*Engaged in Private Practice, Infectious Diseases
Former Chair of the Department of Medicine and
former Chief Medical Officer of
Raritan Bay Medical Center*

John P. Mulkerin^{1*,4,5}
*Retired, formerly President and
Chief Executive Officer,
First Sentinel Bancorp, Inc.*

Walter G. Reinhard, Esq.^{2,4*,5}
*Partner, Law Firm of
Norris, McLaughlin & Marcus, P.A.*

Jeffries Shein^{3*,4,5,6}
*Managing Partner,
JGT Management Co., LLC*

¹ Audit Committee

² Capital Improvement Committee

³ Compensation Committee

⁴ Corporate Governance and Nominating Committee

⁵ Pension Committee

⁶ Ad Hoc Pricing Committee

* Committee Chair

+ Audit Committee Financial Expert

Executive Leadership

Dennis W. Doll
President and Chief Executive Officer

Gerard L. Esposito
President, Tidewater Utilities, Inc.

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^Δ
*Vice President – Operations and
Chief Operating Officer*

^Δ Mr. Williams retired effective January 1, 2010

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 25, 2010, at 11:00 a.m. at the Office of the Company, 1500 Ronson Road, Iselin, NJ. The record date for the Annual Meeting was March 29, 2010.

Shareholders

As of December 31, 2009, there were 1,940 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

ParenteBeard LLC
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 and Common Stock Purchase Plan

Middlesex Water Company offers a Dividend Reinvestment Plan and Common Stock Purchase Plan which provides new and existing shareholders of its common stock with a convenient way to build ownership in the company without payment of any brokerage commission or service charge. The Plan is now available to new investors who, upon enrollment, agree to become a shareholder by making an initial investment of \$500, up to a maximum of \$10,000, in Middlesex Water common stock. The offer and sale of shares under the Plan will be made only through a Prospectus, available on our website at www.middlesexwater.com or by contacting the Investor Relations Department.

Direct Deposit of Dividends

Shareholders of record can have immediate access to dividend funds by having their dividend payments deposited directly into their 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
www.middlesexwater.com



*A Provider of Water, Wastewater and
Related Products and Services*

PO Box 1500
Iselin, New Jersey 08830-0452
732-634-1500

www.middlesexwater.com



Mixed Sources

Product group from well-managed forests
and other controlled sources

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