MIDDLESEX WATER CO
Form 10-K
March 10, 2008

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

(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

OR

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

For the transition period from _________________ to______________________

Commission File Number 0-422

MIDDLESEX WATER COMPANY
(Exact name of registrant as specified in its charter)

New Jersey	22-1114430
(State of Incorporation)	(IRS employer identification no.)

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

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

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

Title of Each Class:	Name of each exchange on which registered:
None	None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, No par Value
(Title of Class)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ¨ No þ

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2007 was $244,022,786 based on the closing market price of $19.21 per share.

The number of shares outstanding for each of the registrant's classes of common stock, as of March 3, 2008:

Common Stock, No par Value 13,262,182 shares outstanding

Documents Incorporated by Reference

Proxy Statement to be filed in connection with the Registrant’s Annual Meeting of Shareholders to be held on May 21, 2008, which will be filed with the Securities and Exchange Commission within 120 days, is incorporated as to Part III.

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Forward-Looking Statements

Certain statements contained in this annual report and in the documents incorporated by reference constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. The Company intends that these statements be covered by the safe harbors created under those laws. These statements include, but are not limited to:

- statements as to expected financial condition, performance, prospects and earnings of the Company;
- statements regarding strategic plans for growth;
- statements regarding the amount and timing of rate increases and other regulatory matters;
- statements as to the Company's expected liquidity needs during fiscal 2008 and beyond and statements as to the sources and availability of funds to meet its liquidity needs;
- statements as to expected rates, consumption volumes, service fees, revenues, margins, expenses and operating results;
- statements as to the Company's compliance with environmental laws and regulations and estimations of the materiality of any related costs;
- statements as to the safety and reliability of the Company's equipment, facilities and operations;
- statements as to financial projections;
- statements as to the ability of the Company to pay dividends;
- statements as to the Company's plans to renew municipal franchises and consents in the territories it serves;
- expectations as to the amount of cash contributions to fund the Company's retirement benefit plans, including statements as to anticipated discount rates and rates of return on plan assets;
- statements as to trends; and
- statements regarding the availability and quality of our water supply.

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

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

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

For an additional discussion of factors that may affect the Company’s business and results of operations, see Item 1A - Risk Factors.

PART I

Item 1. Business.

Overview

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

The terms "the Company," "we," "our," and "us" refer to Middlesex Water Company and its subsidiaries, including Tidewater Utilities, Inc. (Tidewater) and Tidewater's wholly-owned subsidiaries, Southern Shores Water Company, LLC (Southern Shores) and White Marsh Environmental Systems, Inc. (White Marsh). The Company's other subsidiaries are Pinelands Water Company (Pinelands Water) and Pinelands Wastewater Company (Pinelands Wastewater) (collectively, Pinelands), Utility Service Affiliates, Inc. (USA), Utility Service Affiliates (Perth Amboy) Inc., (USA-PA) and Tidewater Environmental Services, Inc. (TESI).

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

Middlesex System

The Middlesex System in New Jersey provides water services to approximately 59,400 retail customers, primarily in eastern Middlesex County, New Jersey and provides water under wholesale contracts to the City of Rahway, Township of Edison, the Boroughs of Highland Park and Sayreville and both the Old Bridge and the Marlboro Township Municipal Utilities Authorities. The Middlesex System treats, stores and distributes water for residential, commercial, industrial and fire prevention purposes. The Middlesex System also provides water treatment and pumping services to the Township of East Brunswick under contract. The Middlesex System, through its retail and contract sales, produced approximately 64% of 2007 revenue.

The Middlesex System's retail customers are located in an area of approximately 55 square miles in Woodbridge Township, the City of South Amboy, the Boroughs of Metuchen and Carteret, portions of the Township of Edison and the Borough of South Plainfield in Middlesex County and, to a minor extent, a portion of the Township of Clark in Union County. Retail customers include a mix of residential customers, large industrial concerns and commercial and light industrial facilities. These customers are located in generally well-developed areas of central New Jersey. The contract customers of the Middlesex System comprise an area of approximately 146 square miles with a population of approximately 303,000. Contract sales to Edison, Sayreville, Old Bridge, Marlboro and Rahway are supplemental to the existing water systems of these customers. The State of New Jersey in the mid-1980's approved plans to increase available surface water supply to the South River Basin area of the state to facilitate a reduction in groundwater use in this area. The Middlesex System provides treated surface water under long-term agreements to East Brunswick, Marlboro, Old Bridge and Sayreville consistent with the state-approved plan.

Middlesex provides water service to approximately 300 customers in Cumberland County, New Jersey. This system is referred to as Bayview and is not physically interconnected with the Middlesex system. Bayview produced less than 1% of our total revenue in 2007.

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Tidewater System

Tidewater, together with its wholly-owned subsidiary, Southern Shores, provides water services to approximately 31,600 retail customers for domestic, commercial and fire protection purposes in over 300 separate community water systems in New Castle, Kent and Sussex Counties, Delaware. An additional wholly-owned subsidiary, White Marsh, operates water and wastewater systems under contract for approximately 5,100 residential customers and also owns the office building that Tidewater uses as its business office. White Marsh's rates for water and wastewater operations are not regulated by the Delaware Public Service Commission (PSC). The Tidewater System produced approximately 23% of total revenue in 2007.

Utility Service Affiliates-Perth Amboy

USA-PA operates the City of Perth Amboy, NJ's water and wastewater systems under a 20-year agreement, which expires in 2018. USA-PA serves approximately 9,700 customers, most of whom are served by both systems. The agreement was effected under New Jersey's Water Supply Public-Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act and requires USA-PA to lease from Perth Amboy all of its employees who currently work on the Perth Amboy water and wastewater systems. Under the agreement, USA-PA receives both fixed and variable fees. The variable position is based on customer billing. Fixed fee revenues were $7.8 million in 2007 and are to increase over the term of the 20-year contract to $10.2 million based upon a schedule of rates. USA-PA produced approximately 9% of total revenue in 2007.

In connection with the agreement, Middlesex guaranteed a series of Perth Amboy's municipal bonds in the principal amount of approximately $26.3 million, of which approximately $22.6 million remains outstanding. In connection with the agreement with Perth Amboy, USA-PA entered into a 20-year subcontract with a wastewater operating company for the operation and maintenance of the Perth Amboy wastewater system. The subcontract provides for the sharing of certain fixed and variable fees and operating expenses.

Pinelands System

Pinelands Water provides water services to approximately 2,500 residential customers in Burlington County, New Jersey. Pinelands Water produced less than 1% of total revenue in 2007. Pinelands Water is not physically interconnected with the Middlesex System.

Pinelands Wastewater provides wastewater services to approximately 2,500 primarily residential retail customers. Under contract, it also services one municipal wastewater system in Burlington County, New Jersey with about 200 residential customers. Pinelands Wastewater produced approximately 1% of total revenue in 2007.

Utility Service Affiliates, Inc.

USA provides residential customers a service line maintenance program called LineCareSM. LineCareSM is an affordable maintenance program that covers all parts, material and labor required to repair or replace specific elements of the customer's water service line and customer shut-off valve in the event of a failure. USA produced less than 1% of total revenue in 2007.

TESI System

TESI, which was formed in 2005, provides wastewater services to approximately 1,400 residential retail customers in Delaware. TESI produced less than 1% of our total revenue in 2007.

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Financial Information

Consolidated operating revenues and operating income are as follows:

	(Thousands of Dollars) Years Ended December 31,		
	2007	2006	2005
Operating Revenues	$ 86,114	$ 81,061	$ 74,613
Operating Income	$ 22,671	$ 21,318	$ 17,218

Operating revenues were earned from the following sources:

	Years Ended December 31,		
	2007	2006	2005
Residential	45.0%	42.6%	41.9%
Commercial	9.7	10.0	9.8
Industrial	9.9	10.7	11.0
Fire Protection	10.3	10.7	10.4
Contract Sales	12.5	12.3	13.4
Contract Operations	10.3	11.0	10.8
Other	2.3	2.7	2.7
TOTAL	100.0%	100.0%	100.0%

Water Supplies and Contracts

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

Middlesex System

Our Middlesex System, which produced approximately 16.8 billion gallons in 2007, obtains water from surface sources and wells, or groundwater sources. In 2007, surface sources of water provided approximately 70% of the Middlesex System’s water supply, groundwater sources provided approximately 23% from 31 wells and the balance was purchased from a non-affiliated water utility. Middlesex System’s distribution storage facilities are used to supply water to customers at times of peak demand, outages and emergencies.

The principal source of surface water for the Middlesex System is the Delaware & Raritan Canal, which is owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority. Middlesex is under contract with the New Jersey Water Supply Authority, which expires November 30, 2023. The contract provides for average purchases of 27 million gallons per day (mgd) of untreated water from the Delaware & Raritan Canal, augmented by the Round Valley/Spruce Run Reservoir System. Surface water is pumped to, and treated, at the Middlesex Carl J. Olsen (CJO) Plant. Middlesex also has an agreement with a non-affiliated regulated water utility for the purchase of treated water. This long-term agreement, which expires February 27, 2011, provides for minimum purchase of 3 mgd of treated water with provisions for additional purchases.

Tidewater System

Our Tidewater System, which produced approximately 2.1 billion gallons in 2007, obtains 100% of its groundwater sources from 193 wells. In 2007, 11 new wells were placed into service. We deactivated, sealed and abandoned 20 wells for either water quality reasons or for the purpose of consolidating production facilities for more cost-efficient operation. Tidewater continues to submit applications to Delaware regulatory authorities for the approval of additional wells as growth, demand and water quality warrants. The Tidewater System does not have a central treatment facility but has several regional treatment plants. Several of its water systems in New Castle, Kent and Sussex Counties, Delaware have interconnected transmission systems.

Pinelands System

Water supply to our Pinelands System is derived from groundwater sources from four wells which provided overall system delivery of 206 million gallons in 2007. The pumping capacity of the four wells is 2.2 million gallons per day.

Bayview System

Water supply to Bayview customers is derived from groundwater water sources from two wells, which delivered approximately 11 million gallons in 2007.

Pinelands Wastewater System

The Pinelands Wastewater System discharges into the South Branch of the Rancocas Creek through a tertiary treatment plant that provides clarification, sedimentation, filtration and disinfection. The total capacity of the plant is 0.5 mgd, and the system provided overall treatment to 109 million gallons in 2007.

TESI System

The TESI System owns and operates six wastewater treatment systems in Southern Delaware. The treatment plants provide clarification, sedimentation, and disinfection. The combined total treatment capacity of the plants is 0.6 mgd. Current average flow is approximately 0.2 mgd.

Employees

As of December 31, 2007, we had a total of 254 employees. In addition, we lease 19 full-time employees under the USA-PA contract with the City of Perth Amboy, New Jersey. No employees are represented by a union except the leased employees who are subject to a collective bargaining agreement with the City of Perth Amboy. We believe our employee relations are good. Wages and benefits, other than for leased employees, are reviewed annually and are considered competitive within both the industry and the regions where we operate.

Competition

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

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Regulation

We are regulated as to rates charged to customers for water and wastewater services in New Jersey and Delaware, as to the quality of the services we provide and as to certain other matters. Our USA, USA-PA and White Marsh subsidiaries are not regulated utilities. We are subject to environmental and water quality regulation by the United States Environmental Protection Agency (EPA), and the New Jersey Department of Environmental Protection (DEP) with respect to operations in New Jersey and by Department of Natural Resources and Environmental Control (DNREC), the Delaware Department of Health and Social Services-Division of Public Health (DPH), and the Delaware River Basin Commission (DRBC) with respect to operations in Delaware. In addition, our issuances of securities are subject to the prior approval of the SEC and the New Jersey Board of Public Utilities (BPU) or the PSC.

Regulation of Rates and Services

New Jersey water and wastewater service operations (excluding the operations of USA and USA-PA) are subject to regulation by the BPU. Similarly, our Delaware water and wastewater operations (excluding the operations of White Marsh) are subject to regulation by the PSC. These regulatory authorities have jurisdiction with respect to rates, service, the issuance of securities and other matters of utility companies operating within the States of New Jersey and Delaware, respectively. For ratemaking purposes, we account separately for operations in New Jersey and Delaware to facilitate independent ratemaking by the BPU for New Jersey operations and the PSC for Delaware operations.

In determining our rates, the BPU and the PSC consider the income, expenses, rate base of property used and useful in providing service to the public and a fair rate of return on investments within their separate jurisdictions. Rate determinations by the BPU do not guarantee particular rates of return to us for our New Jersey operations nor do rate determinations by the PSC guarantee particular rates of return for our Delaware operations. Thus, we may not achieve the rates of return permitted by the BPU or the PSC.

Effective October 26, 2007, Middlesex received approval from the New Jersey Board of Public Utilities (BPU) for a 9.1%, or $5.0 million increase in its base water rates. The increase was predicated on a rate base of $164.4 million and an authorized return on equity of 10.0%. Middlesex had originally filed for an $8.9 million or 16.5% base rate increase with the BPU on April 18, 2007. The rate increase is intended to recover increased costs of operations, maintenance, labor and benefits, purchased power, purchased water and taxes, as well as capital investment of approximately $23.0 million since June 2005.

On April 28, 2006, Tidewater filed for a $5.5 million, or 38.6%, base rate increase with the Delaware Public Service Commission (PSC). The request was intended to recover increased costs of operations, maintenance and taxes, as well as capital investment of approximately $23.8 million since rates were last established in March 2005. Since June 27, 2006, Tidewater had been billing and recognizing additional revenues through a 15% interim rate increase subject to refund as allowed under PSC regulations. A settlement was reached amongst the parties which concluded that a 26.9% overall increase in base rates would be implemented. The PSC approved the settlement and the remaining 11.9% increase was put into effect on February 28, 2007. The combined effect of the interim and final rate increases was $3.9 million in additional annual operating revenues.

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

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2008. 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%.

There can be no assurance that any future rate increases will be granted or, if granted, that they will be in the amounts requested.

Water Quality and Environmental Regulations

Both the EPA and the DEP regulate our operations in New Jersey with respect to water supply, treatment and distribution systems and the quality of the water, as do the EPA, DNREC, DPH and DRBC with respect to operations in Delaware.

Federal, New Jersey and Delaware regulations adopted relating to water quality require us to perform expanded types of testing to ensure that our water meets state and federal water quality requirements. In addition, environmental regulatory agencies are reviewing current regulations governing the limits of certain organic compounds found in the water as byproducts of treatment. We participate in industry-related research to identify the various types of technology that might reduce the level of organic, inorganic and synthetic compounds found in the water. The cost to water companies of complying with the proposed water quality standards depends in part on the limits set in the regulations and on the method selected to implement such reduction. We believe the CJO Plant capabilities put us in a strong position to meet any such future standards with regard to our Middlesex System. We regularly test our water to determine compliance with existing federal, New Jersey and Delaware primary water quality standards.

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

Well water treatment in the Pinelands and Bayview Systems (disinfection only) is done at individual well sites.

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

Management

This table lists information concerning our executive management team:

Name	Age	Principal Position(s)
Dennis W. Doll	49	President and Chief Executive Officer
A. Bruce O'Connor	49	Vice President and Chief Financial Officer
Ronald F. Williams	58	Vice President-Operations and Chief Operating Officer
Kenneth J. Quinn	60	Vice President-General Counsel, Secretary and Treasurer
James P. Garrett	61	Vice President–Human Resources
Richard M. Risoldi	51	Vice President–Subsidiary Operations
Bernadette M. Sohler	47	Vice President-Corporate Affairs
Gerard L. Esposito	56	President, Tidewater Utilities, Inc.

Dennis W. Doll– Mr. Doll joined the Company in November 2004 as Executive Vice President. He was elected President and Chief Executive Officer and became a Director of Middlesex effective January 1, 2006. Prior to joining the Company, Mr. Doll was employed by Elizabethtown Water Company since 1985, serving most recently as a member of the senior leadership team of the Northeast Region of American Water, comprised of various regulated utilities and other non-regulated subsidiaries in the water and wastewater fields. Mr. Doll is a director of the New Jersey Utilities Association and the National Association of Water Companies.

A. Bruce O'Connor– Mr. O'Connor, a Certified Public Accountant, joined the Company in 1990 as Assistant Controller and was elected Controller in 1992 and Vice President in 1995. He was elected Vice President and Chief Financial Officer in 1996. He is responsible for financial reporting, customer service, rate cases, cash management and financings. He is Treasurer and a Director of Tidewater Utilities, Inc., Tidewater Environmental Services, Inc., Utility Service Affiliates, Inc., and White Marsh Environmental Systems, Inc. He is Vice President, Treasurer and a Director of Utility Service Affiliates (Perth Amboy) Inc., Pinelands Water Company and Pinelands Wastewater Company.

Ronald F. Williams– Mr. Williams joined the Company in 1995 as Assistant Vice President–Operations, responsible for the Company's Engineering and Distribution Departments. He was elected Vice President–Operations in October 1995 and designated Chief Operating Officer in 2004. Mr. Williams was elected to the additional posts of Assistant Secretary and Assistant Treasurer for Middlesex in 2004. He was formerly employed by Garden State Water Company as President and Chief Executive Officer. He is a Director and President of Utility Service Affiliates (Perth Amboy) Inc.

Kenneth J. Quinn– Mr. Quinn joined the Company in 2002 as General Counsel and was elected Assistant Secretary in 2003. In 2004, Mr. Quinn was elected Vice President, Secretary and Treasurer for Middlesex and Secretary and Assistant Treasurer for all subsidiaries of Middlesex. Prior to joining the Company he had been employed in private law practice. Prior to that, Mr. Quinn spent 10 years as in-house counsel to two major banking institutions located in New Jersey. In May 2003, he was elected Assistant Secretary of Tidewater Utilities, Inc., Pinelands Water Company, Pinelands Wastewater Company, Utility Service Affiliates (Perth Amboy) Inc., Bayview Water Company and White Marsh Environmental Systems, Inc. He is a member of the New Jersey State Bar Association and is also a member of the Public Utility Law Section of the Bar.

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

Richard M. Risoldi– Mr. Risoldi joined the Company in 1989 as Director of Production, responsible for the operation and maintenance of the Company's treatment and pumping facilities. He was appointed Assistant Vice President of Operations in 2003. He was elected Vice President in May 2004-Subsidiary Operations, responsible for regulated subsidiary operations and business development. He is a Director of Tidewater Utilities, Inc., Tidewater Environmental Services, Inc., White Marsh Environmental Systems Inc and USA-PA. He also serves as Director and President of Pinelands Water Company, Pinelands Wastewater Company and Utility Service Affiliates, Inc.

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

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

Item 1A. Risk Factors.

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

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

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

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

The EPA and DEP regulate our operations in New Jersey with respect to water supply, treatment and distribution systems and the quality of the water. Our operations in Delaware are regulated by the EPA, DNREC, DPH, and DRBC with respect to water supply, treatment and distribution systems and the quality of water. Federal, New Jersey and Delaware regulations relating to water quality require us to perform expanded types of testing to ensure that our water meets state and federal water quality requirements. We are subject to EPA regulations under the Federal Safe Drinking Water Act, which include the Lead and Copper Rule, the maximum contaminant levels established for various volatile organic compounds, the Federal Surface Water Treatment Rule and the Total Coliform Rule. There are also similar state regulations by the DEP in New Jersey. The DEP and DPH monitor our activities and review the results of water quality tests that we perform for adherence to applicable regulations. In addition, environmental regulatory agencies are continually reviewing regulations governing the limits of certain organic compounds found in the water as byproducts of treatment.

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

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

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

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

We require financing to fund the ongoing capital program for the improvement of our utility system assets and for planned expansion of those systems. We expect to spend between $122 million and $159 million for capital projects through 2010. We must obtain regulatory approval to sell debt or equity securities to raise money for these projects. If sufficient capital is not available or the cost of capital is too high, or if the regulatory authorities deny a petition of ours to sell debt or equity securities, we may not be able to meet the costs of complying with environmental laws and regulations or the costs of improving and expanding our utility system assets to the level we believe necessary. This might result in the imposition of fines or restrictions on our operations and may curtail our ability to improve upon and expand our utility system assets.

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

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

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

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

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

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

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

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

We have a long-term contractual obligation for water and wastewater system operation and maintenance under which we may incur costs in excess of payments received.

Middlesex Water Company and USA-PA operate and maintain the water and wastewater systems of the City of Perth Amboy, New Jersey under a 20-year contract expiring in 2018. This contract does not protect us against incurring costs in excess of revenues we earn pursuant to the contract. There can be no absolute assurance that we will not experience losses resulting from this contract. Losses under this contract or our failure or inability to perform may have a material adverse effect on our financial condition and results of operations. Also, in connection with the contract, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately $68.0 million in three series of bonds. Middlesex guaranteed one of those series of bonds, designated the Series C Serial Bonds, in the principal amount of approximately $26.3 million. As of December 31, 2007, approximately $22.6 million of the Series C Serial Bonds remain outstanding. If Perth Amboy defaults on its obligations to pay the bonds we have guaranteed, we would have to raise funds to meet our obligations under that guarantee.

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

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

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

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

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

Since the September 11, 2001 terrorist attacks and the continuing threats to the health and security of the United States of America, we have taken steps to increase security measures at our facilities and heighten employee awareness of threats to our water supply. We have tightened our security measures regarding the delivery and handling of certain chemicals used in our business. We are at risk for terrorist attacks and have incurred, and will continue to incur costs for security precautions to protect our facilities, operations and supplies from such risks.

Our ability to achieve growth is somewhat dependent on the residential building market in the territories we serve. If housing starts decline significantly, our rate of growth may not meet our expectations.

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

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

Our Restated Certificate of Incorporation and our Indenture of Mortgage dated as of April 1, 1927, as supplemented, impose conditions on our ability to pay dividends. We have paid dividends on our common stock each year since 1912 and have increased the amount of dividends paid each year since 1973.

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

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

Our ability to pay the principal and interest on our indebtedness as it comes due will depend upon our current and future performance. Our performance is affected by many factors, some of which are beyond our control. We believe that our cash generated from operations, and, if necessary, borrowings under our existing credit facilities, will be sufficient to enable us to make our debt payments as they become due. If, however, we do not generate sufficient cash, we may be required to refinance our obligations or sell additional equity, which may be on terms that are not as favorable to us.

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

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

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

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Utility Plant

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

Middlesex System

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

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

The CJO Plant includes chemical storage and chemical feed equipment, two dual rapid mixing basins, four upflow clarifiers which are also called superpulsators, four underground reinforced chlorine contact tanks, twelve rapid filters containing gravel, sand and anthracite for water treatment and a steel washwater tank. The CJO Plant also includes a computerized Supervisory Control and Data Acquisitions system to monitor and control the CJO Plant and the water supply and distribution system in the Middlesex System. There is an on-site State certified laboratory capable of performing bacteriological, chemical, process control and advanced instrumental chemical sampling and analysis. The firm design capacity of the CJO Plant is 45 mgd (60 mgd maximum capacity). The main pumping station at the CJO Plant has a design capacity of 90 mgd. The four electric motor-driven, vertical turbine pumps presently installed have an aggregate capacity of 72 mgd.

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

The transmission and distribution system is comprised of 732 miles of mains and includes 23,200 feet of 48-inch reinforced concrete transmission main connecting the CJO Plant to our distribution pipe network and related storage facilities. Also included is a 58,600 foot transmission main and a 38,800 foot transmission main, augmented with a long-term, non-exclusive agreement with the East Brunswick system to transport water to several of our contract customers.

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

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

Tidewater System

The Tidewater System is comprised of 91 production plants that vary in pumping capacity from 26,000 gallons per day to 2.0 mgd. Water is transported to our customers through 562 miles of transmission and distribution mains. Storage facilities include 49 tanks, with an aggregate capacity of 6.0 million gallons. Our Delaware operations are managed from Tidewater's offices in Dover, Delaware and Millsboro, Delaware. Tidewater's Dover, Delaware office property, located on property owned by White Marsh, consists of a 6,800 square foot office building situated on an eleven-acre lot.

Pinelands System

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

Pinelands Wastewater System

Pinelands Wastewater owns a 12 acre site on which its 0.5 million gallons per day capacity tertiary treatment plant and connecting pipes are located. Its wastewater collection system is comprised of approximately 25 miles of main.

Bayview System

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

TESI System

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

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USA-PA, USA and White Marsh

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

Item 3. Legal Proceedings.

In July 2005, Tidewater received a notice of violation and request for corrective action issued by the Delaware State Fire Marshal regarding the alleged failure of one of the community water systems operated by Tidewater to meet Delaware fire protection requirements. Tidewater appealed the Fire Marshal's decision with the Delaware State Fire Prevention Commission (the "SFPC") and, in November 2005, the SFPC denied Tidewater's appeal. In October 2007, Tidewater agreed to dismiss its appeal of the SFPC's decision with the Sussex County Superior Court in Delaware of the notice of violation and request for corrective action issued by the Fire Marshal. In return for the dismissal both parties have agreed that 15 of the original 67 community water systems previously identified will require certain modifications over a ten-year period in order to provide full fire protection. The expected capital investment to comply with the settlement is $12.0 to $14.0 million and will be expended ratably over the ten-year period. We will apply to the PSC to increase base rates to recover the costs of any such modifications. Although these types of modifications have routinely been included in previous rate matters, the PSC may not approve a portion or all of the costs associated with the fire protection upgrades.

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

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

None.

PART II

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

The Company's common stock is traded on the NASDAQ Stock Market, under the symbol MSEX. The following table shows the range of high and low share prices per share for the common stock and the dividend paid to shareholders in such quarter. As of December 31, 2007, there were 1,975 holders of record.

2007	High	Low	Dividend
Fourth Quarter	$ 19.25	$ 18.10	$ 0.1750
Third Quarter	20.24	18.05	0.1725
Second Quarter	19.48	18.12	0.1725
First Quarter	19.07	17.75	0.1725

2006	High	Low	Dividend
Fourth Quarter	$ 19.50	$ 17.96	$ 0.1725
Third Quarter	20.50	17.58	0.1700
Second Quarter	19.34	16.50	0.1700
First Quarter	19.72	17.03	0.1700

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

If four or more quarterly dividends are in arrears, the preferred shareholders, as a class, are entitled to elect two members to the Board of Directors in addition to Directors elected by holders of the common stock. In the event dividends on the preferred stock are in arrears, no dividends may be declared or paid on the common stock of the Company. Substantially all of the Utility Plant of the Company is subject to the lien of its mortgage, which also includes certain restrictions as to cash dividend payments and other distributions on common stock.

The Company maintains an escrow account for 71,253 shares of the Company's common stock which were awarded under the 1997 Restricted Stock Plan, which has expired. 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 Company filed a petition with the BPU requesting approval of stock-based compensation plan called the 2008 Restricted Stock Plan. The Company intends to seek shareholder approval for the new plan at its May 21, 2008 annual meeting of shareholders. The maximum number of shares authorized for grant under the proposed plan is 300,000 shares.

Set forth below is a line graph comparing the yearly change in the cumulative total return (which includes reinvestment of dividends) of a $100 investment for the Company’s common stock, a peer group of investor-owned water utilities, and the Dow Jones Wilshire 5000 Stock Index for the period of five years commencing December 31, 2002. The current peer group includes American States Water Company, Aqua America Inc., Artesian Resources Corp., California Water Service Company, Connecticut Water Service, Inc., Pennichuck Corp., SJW Corp., Southwest Water Company, York Water Company and the Company. The Dow Jones Wilshire 5000 Stock Index measures the performance of all U.S. headquartered equity securities with readily available price data.

	2002	2003	2004	2005	2006	2007
Middlesex Water Company	100.00	133.47	128.85	122.12	136.78	143.58
Dow Jones Wilshire 5000	100.00	131.64	148.26	157.64	182.66	193.13
Peer Group	100.00	127.98	147.66	193.41	193.90	186.27

Item 6. Selected Financial Data.

CONSOLIDATED SELECTED FINANCIAL DATA
(In Thousands except per Share Amounts)

	2007	2006	2005	2004	2003
Operating Revenues	$ 86,114	$ 81,061	$ 74,613	$ 70,991	$ 64,111
Operating Expenses:					
Operations and Maintenance	46,240	43,345	42,156	39,984	36,195
Depreciation	7,539	7,060	6,460	5,846	5,363
Other Taxes	9,664	9,338	8,779	8,228	7,816
Total Operating Expenses	63,443	59,743	57,395	54,058	49,374
Operating Income	22,671	21,318	17,218	16,933	14,737
Other Income, Net	1,527	774	740	795	358
Interest Charges	6,619	7,012	6,245	5,468	5,227
Income Taxes	5,736	5,041	3,237	3,814	3,237
Net Income	11,843	10,039	8,476	8,446	6,631
Preferred Stock Dividend	248	248	251	255	255
Earnings Applicable to Common Stock	$ 11,595	$ 9,791	$ 8,225	$ 8,191	$ 6,376
Earnings per Share:					
Basic	$ 0.88	$ 0.83	$ 0.72	$ 0.74	$ 0.61
Diluted	$ 0.87	$ 0.82	$ 0.71	$ 0.73	$ 0.61
Average Shares Outstanding:					
Basic	13,203	11,844	11,445	11,080	10,475
Diluted	13,534	12,175	11,784	11,423	10,818
Dividends Declared and Paid	$ 0.693	$ 0.683	$ 0.673	$ 0.663	$ 0.649
Total Assets	$ 392,675	$ 370,267	$ 324,383	$ 305,634	$ 267,956
Convertible Preferred Stock	$ 2,856	$ 2,856	$ 2,856	$ 2,961	$ 2,961
Long-term Debt	$ 131,615	$ 130,706	$ 128,175	$ 115,281	$ 97,377

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

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

Overview

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

Our New Jersey water utility system (the Middlesex System) provides water services to approximately 59,400 retail customers, primarily in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey with a total population of approximately 303,000. In partnership with our subsidiary, USA-PA, we operate the water supply system and wastewater system for the City of Perth Amboy, New

Jersey. Our other New Jersey subsidiaries, Pinelands Water and Pinelands Wastewater, provide water and wastewater services to residents in Southampton Township, New Jersey.

Our Delaware subsidiaries, Tidewater and Southern Shores, provide water services to approximately 31,600 retail customers in New Castle, Kent and Sussex Counties, Delaware. Our TESI subsidiary provides wastewater services to approximately 1,400 residential retail customers. Our other Delaware subsidiary, White Marsh, services an additional 5,100 customers in Kent and Sussex Counties through 62 operations and maintenance contracts.

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

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

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

Operating Results by Segment

The Company has two operating segments, Regulated and Non-Regulated. Our Regulated segment contributed 90%, 89% and 89% of total revenues, and 94%, 94% and 95% of net income for the years ended December 31, 2007, 2006 and 2005, respectively. The discussion of the Company's results of operations is on a consolidated basis, and includes significant factors by subsidiary. The segments in the tables included below are comprised of the following companies: Regulated- Middlesex, Tidewater, Pinelands, Southern Shores, and TESI; Non-Regulated- USA, USA-PA, and White Marsh.

Results of Operations in 2007 Compared to 2006

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

Operating revenues for the year rose $5.0 million, or 6.2% over the same period in 2006. Revenues improved by $3.7 million in our Tidewater System, of which $2.4 million was a result of a base rate increase that was granted to Tidewater. The rate increase was implemented in two parts; a 15% interim rate increase in June 2006 and an additional 12% final increase on February 28, 2007. Customer growth and higher consumption contributed $1.9 million of increased revenues. Our Tidewater System experienced record water production and consumption billed due to extended favorable weather during the spring and summer. Fees charged to new customers for initial connection to our Delaware water systems were lower by $0.6 million as new residential and commercial development has slowed in our Delaware service territories. Revenues in our Middlesex system increased by $0.7 million as a result of a 9.1% base rate increase implemented on October 26, 2007. Middlesex revenues also increased by $0.3 million due to increased sales to our contract customers. TESI revenues increased by $0.3 million, as we connected new customers to our existing and new wastewater systems in Delaware.

While we anticipate continued organic customer and consumption growth among our Delaware systems, such growth and increased consumption cannot be guaranteed. Our water systems are highly dependent on the effects of weather, which may adversely impact future consumption despite customer growth. Appreciable organic customer and consumption growth is less likely in our New Jersey systems due to the extent to which our service territory is developed. The Company expects its 2008 operating revenues to reflect the full effect of the October 2007 Middlesex $5.0 million rate increase.

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

Electric generation costs for our Middlesex system are expected to increase in 2008 due to the renewal in late 2007 of our power contract that reflects an 18% increase. Payroll and related employee benefit costs are expected to be higher in 2007 due to headcount increase. However, the unit cost for our employee’s health benefits will not increase until December 2008.

Depreciation expense for 2007 increased by $0.4 million, or 5.6%, due to a higher level of utility plant in service. As our investments in utility plant and operating expenses increase, we continue to seek timely rate relief through base rate filings as discussed above.

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

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

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

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

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

Results of Operations in 2006 Compared to 2005

	(Millions of Dollars) Years ended December 31,					
	2006			2005		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	$ 71.9	$ 9.2	$ 81.1	$ 66.3	$ 8.3	$ 74.6
Operations and maintenance	35.7	7.7	43.4	35.0	7.2	42.2
Depreciation	7.0	0.1	7.1	6.3	0.1	6.4
Other taxes	9.1	0.2	9.3	8.6	0.2	8.8
Operating income	20.1	1.2	21.3	16.4	0.8	17.2
Other income (expense)	0.9	(0.1)	0.8	0.7	--	0.7
Interest expense	7.0	--	7.0	6.2	--	6.2
Income taxes	4.6	0.5	5.1	2.9	0.3	3.2
Net income	$ 9.4	$ 0.6	$ 10.0	$ 8.0	$ 0.5	$ 8.5

Operating revenues for the year rose $6.5 million, or 8.7% over the same period in 2005. Water sales improved by $2.8 million in our Middlesex System, of which $4.1 million was a result of base rate increase that was granted to Middlesex on December 8, 2005. This increase was somewhat offset by lower consumption revenues of $1.3 million due to unfavorable weather from mid-July through the late fall of 2006 as compared to the prior year. Customer growth of 7.07% in Delaware provided additional water consumption sales, facility charges and connection fees of $0.9 million, higher base rates provided $1.0 million and increased consumption for existing customers provided an additional $0.6 million. New unregulated wastewater contracts in Delaware provided $0.4 million in additional revenues. Revenues from our operations and maintenance contract with the City of Perth Amboy increased by $0.4 million due to scheduled fixed fee adjustments under the agreement. USA had increased revenues for its LineCareSM maintenance program of $0.1 million. TESI revenues increased by $0.1 million, as we connected new customers to our wastewater systems in Delaware. All other operations contributed $0.2 million of additional revenues.

Operation and maintenance expenses increased $1.2 million or 2.8% as compared to the same period in 2005. Continued growth of our Delaware water and wastewater operations led to higher costs of $1.1 million. Despite lower water production volume of 3.2% for our Middlesex System, costs increased by $0.3 million due to increased unit costs for electricity, chemicals and residuals removal. Costs for providing services under our contract with the City of

Perth Amboy increased by $0.1 million and costs for providing services under our contracts in Delaware increased by $0.2 million. Audit fees declined by $0.3 million as the Company changed independent accounting firms beginning with the 2006 audit period. Labor and benefits expenses fell by $0.3 million due to vacant positions and improved performance on investments. All other operating costs increased by $0.1 million.

Depreciation expense for 2006 increased by $0.7 million, or 10.9%, due to a higher level of utility plant in service. As our investments in utility plant and operating expenses increase, we continue to seek timely rate relief through base rate filings as discussed above.

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

Other income decreased $0.1 million, primarily due to higher Allowance for Funds Used During Construction (AFUDC) as capital spending increased compared to the prior year.

Interest expense increased by $0.8 million, or 12.9%, as a result of a higher level of long-term debt, and higher average interest rates and increased weighted average short-term borrowings as compared to the prior year period.

Income tax expense based on the 2006 operating results was $1.9 million higher than 2005 and reflects the increased revenues due to higher water rates in New Jersey and Delaware and increased water consumption in Delaware.

Net income increased to $10.0 million from $8.5 million in the prior year, and basic earnings per share increased from $0.72 to $0.83. Diluted earnings per share increased from $0.71 to $0.82.

Outlook

In addition to factors previously discussed under “Results of Operations in 2007 Compared to 2006,” our revenues are expected to increase in 2008 from anticipated customer growth in Delaware for our regulated water operations and, to a lesser degree, from growth in our regulated wastewater operations in Delaware. We also expect revenues to increase as a result of the settlement of our 2007 Middlesex rate case effective October 26, 2007. The approved increase of 9.1% is expected to generate $5.0 million of revenues on an annual basis assuming actual market conditions are consistent with our projections.

Revenues and earnings will also be influenced by weather. Changes in these factors, as well as increases in capital expenditures and operating costs are the primary factors that determine the need for rate increase filings.

We continue to explore viable plans to streamline operations and reduce costs in all aspects of our business.

We expect our interest expense to increase during 2008 as a result of higher expected average borrowings against the short-term credit facilities in order to finance a portion of our capital expenditures during the coming year (see Liquidity and Capital Resources).

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

Liquidity and Capital Resources

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Cash flows from operations are largely based on three factors: weather, adequate and timely rate increases, and customer growth. The effect of those factors on net income is discussed in results of operations. For 2007, cash flows from operating activities increased $2.7 million to $18.8 million, as compared to the prior year. This increase was primarily attributable to higher net income and depreciation. The $18.8 million of net cash flow from operations enabled us to fund approximately 86% of our utility plant expenditures for the period internally, with the remainder funded with proceeds from equity issued under our Dividend Reinvestment Plan, long-term borrowings and short-term borrowings.

For 2006, cash flows from operating activities increased $2.6 million to $16.1 million, as compared to the prior year. This increase was primarily attributable to higher net income, depreciation and the timing of collection of customer billings. These decreases in cash flows were partially offset by receipts of advance service fees and the timing of payments for interest and employee benefit plans. The $16.1 million of net cash flow from operations allowed us to fund approximately 52% of our utility plant expenditures for the period internally, with the remainder funded with proceeds from equity issued under a formal offering in November 2006 and our Dividend Reinvestment Plan and both short-term and long-term borrowings.

Increases in certain operating costs will impact our liquidity and capital resources. As described in our results of operations discussion, during 2007 we received rate relief for Tidewater and Middlesex. We continually monitor the need for timely rate filing to minimize any regulatory lag between increasing operating and capital costs and appropriate rate relief. There is no certainty, however, that the BPU or PSC will approve any or all future requested increases.

Sources of Liquidity

Short-term Debt. The Company has established lines of credit aggregating $40.0 million. At December 31, 2007, the outstanding borrowings under these credit lines was $6.3 million at a weighted average interest rate of 5.79%.

The weighted average daily amounts of borrowings outstanding under the Company’s credit lines and the weighted average interest rates on those amounts were $2.6 million and $9.5 million at 6.36% and 6.13% for the years ended December 31, 2007 and 2006, respectively.

Long-term Debt. Subject to regulatory approval, the Company periodically finances capital projects under State Revolving Fund (SRF) loan programs in New Jersey and Delaware. These government programs provide financing at interest rates that are typically below rates available in the financial markets. A portion of the borrowings under the New Jersey SRF is interest free. We participated in the Delaware and New Jersey SRF loan programs during 2007 and expect to participate in the 2008 New Jersey SRF program for up to $3.5 million.

During 2007, Middlesex closed on $3.5 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust (NJEIT) under the New Jersey SRF loan program in order to finance our 2008 RENEW program. The proceeds of these bonds and any interest earned are held by a trustee, and are classified as Restricted Cash on the Consolidated Balance Sheet.

During 2007, Tidewater closed on a $1.1 million loan with the Delaware SRF. The proceeds will be used to fund two specific projects of the 2007 capital program in Delaware.

Substantially all of the Utility Plant of the Company is subject to the lien of its mortgage, which also includes debt service and capital ratio covenants, certain restrictions as to cash dividend payments and other distributions on common stock. The Company is in compliance with all of its mortgage covenants and restrictions.

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Common Stock. The Company periodically issues shares of common stock in connection with its Dividend Reinvestment and Common Stock Purchase Plan (the Plan). The Company raised $1.1 million through the issuance of shares under the Plan during 2007. Periodically, the Company may issue additional equity to reduce short-term indebtedness and for other general corporate purposes. The last public offering of its common stock closed in November 2006. The majority of the net proceeds of approximately $26.2 million from that common stock offering of 1,495,000 shares were used to repay all of the Company's short-term borrowings outstanding at that time.

Capital Expenditures and Commitments

Under our capital program for 2008, we plan to expend $14.3 million for additions and improvements for our Delaware water systems, which include the construction of several storage tanks and the creation of new wells and interconnections. We expect to spend approximately $3.8 million for construction of wastewater systems in Delaware. We expect to spend $2.9 million as we begin to implement a Company-wide information system upgrade. We expect to spend $3.5 million for our RENEW program, which is our program to clean and cement line unlined mains in the Middlesex System. There remains a total of approximately 112 miles of unlined mains in the 730-mile Middlesex System. In 2007, eight miles of unlined mains were cleaned and cement lined. The capital program also includes $12.4 million for scheduled upgrades to our existing systems in New Jersey. The scheduled upgrades consist of $4.3 million for improvements to existing plant, $5.2 million for mains, $0.6 million for service lines, $0.4 million for meters, $0.3 million for hydrants, and $1.6 million for other infrastructure needs.

To pay for our capital program in 2008, we will utilize internally generated funds and funds available and held in trust under existing NJEIT loans (currently, $3.7 million) and Delaware SRF loans (currently, $3.1 million). The SRF programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks. If necessary, we will also utilize short-term borrowings through $40.0 million of available lines of credit with several financial institutions. As of December 31, 2007, we had $6.3 million outstanding against the lines of credit.

Going forward into 2009 through 2010, we currently project that we may be required to expend between $88.4 million and $121.8 million for capital projects. The exact amount is dependent on customer growth, residential housing sales and project scheduling. In particular, Middlesex has filed a prudency review application with the BPU for a proposed major transmission pipeline designed to strengthen its existing transmission network and provide system redundancy. Initial estimates to construct the pipeline are $26.2 million. The duration and outcome of the BPU review process may affect the construction schedule as well as the project viability.

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

Contractual Obligations

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

The table below presents our known contractual obligations for the periods specified as of December 31, 2007.

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	(Millions of Dollars) Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Long-term Debt	$ 134.3	$ 2.7	$ 21.3	$ 6.5	$ 103.8
Notes Payable	6.3	6.3	---	---	---
Interest on Long-term Debt	98.1	6.5	11.0	10.3	70.3
Purchased Water Contracts	44.2	4.2	8.4	5.1	26.5
Wastewater Operations	51.7	4.1	8.5	9.0	30.1
Employee Retirement Plans (1)	3.6	3.6	---	---	---
Total	$ 338.2	$ 27.4	$ 49.2	$ 30.9	$ 230.7

(1) Amount not determinable after one year.

Guarantees

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

In connection with the agreement, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately $68.0 million in three series of bonds. Middlesex guaranteed one of those series of bonds, designated the Series C Serial Bonds, in the principal amount of approximately $26.3 million. Perth Amboy guaranteed the two other series of bonds. The Series C Serial Bonds have various maturity dates with the final maturity date on September 1, 2015. As of December 31, 2007, approximately $22.6 million of the Series C Serial Bonds remained outstanding.

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

Critical Accounting Policies and Estimates

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

Regulatory Accounting

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

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

Revenues

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

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

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

Pension Plan

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

The discount rate utilized for determining future pension obligations has increased from 5.52% at December 31, 2005 to 5.89% at December 31, 2006 and increased to 6.59% at December 31, 2007. Lowering the discount rate by 0.5% would have increased the net periodic pension cost by $1.3 million in 2007. Lowering the expected long-term rate of return on the pension plans by 0.5% (from 8.0% to 7.5%) would have increased the net periodic pension cost in 2007 by approximately $1.1 million.

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

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

Recent Accounting Standards

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

Item 7A. Qualitative and Quantitative Disclosures About Market Risk.

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The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2009 to 2038. Over the next twelve months, approximately $2.7 million of the current portion of 18 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.

Item 8. Financial Statements and Supplementary Data.

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, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for the years then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the consolidated financial statements, the Company changed its method of accounting for defined benefit pension and other postretirement plans in 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Middlesex Water Company's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integral Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 10, 2008 expressed an unqualified opinion.

/s/ Beard Miller Company LLP

Beard Miller Company LLP
Reading Pennsylvania
March 10, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Middlesex Water Company:

We have audited the consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows of Middlesex Water Company and subsidiaries (the “Company”) for the year ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules 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 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of their operations and their cash flows for the year ended December 31, 2005 of the Company, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP
Parsippany, New Jersey
March 16, 2006

MIDDLESEX WATER COMPANY
CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS		December 31, 2007	December 31, 2006
UTILITY PLANT:	Water Production	$ 98,942	$ 95,324
	Transmission and Distribution	264,939	243,959
	General	24,874	25,153
	Construction Work in Progress	9,833	6,131
	TOTAL	398,588	370,567
	Less Accumulated Depreciation	64,736	59,694
	UTILITY PLANT - NET	333,852	310,873
CURRENT ASSETS:	Cash and Cash Equivalents	2,029	5,826
	Accounts Receivable, net	8,227	8,538
	Unbilled Revenues	4,609	4,013
	Materials and Supplies (at average cost)	1,205	1,306
	Prepayments	1,363	1,229
	TOTAL CURRENT ASSETS	17,433	20,912
DEFERRED CHARGES AND OTHER ASSETS:	Unamortized Debt Expense	2,884	3,014
	Preliminary Survey and Investigation Charges	5,283	3,436
	Regulatory Assets	16,090	18,342
	Operations Contracts Fees Receivable	4,184	607
	Restricted Cash	6,418	6,850
	Non-utility Assets - Net	6,183	5,648
	Other	348	585
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	41,390	38,482
	TOTAL ASSETS	$ 392,675	$ 370,267
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	$ 105,668	$ 104,248
	Retained Earnings	27,441	25,001
	Accumulated Other Comprehensive Income, net of tax	69	94
	TOTAL COMMON EQUITY	133,178	129,343
	Preferred Stock	3,958	3,958
	Long-term Debt	131,615	130,706
	TOTAL CAPITALIZATION	268,751	264,007
CURRENT LIABILITIES:	Current Portion of Long-term Debt	2,723	2,501
	Notes Payable	6,250	-
	Accounts Payable	6,477	5,491
	Accrued Taxes	7,611	6,684

	Accrued Interest	1,916	1,880
	Unearned Revenues and Advanced Service Fees	758	601
	Other	1,274	984
	TOTAL CURRENT LIABILITIES	27,009	18,141
COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)			
DEFERRED CREDITS	Customer Advances for Construction	21,758	19,246
AND OTHER LIABILITIES:	Accumulated Deferred Investment Tax Credits	1,461	1,813
	Accumulated Deferred Income Taxes	17,940	15,779
	Employee Benefit Plans	13,333	16,388
	Regulatory Liability - Cost of Utility Plant Removal	5,726	6,200
	Other	459	527
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	60,677	59,953
CONTRIBUTIONS IN AID OF CONSTRUCTION		36,238	28,166
	TOTAL CAPITALIZATION AND LIABILITIES	$ 392,675	$ 370,267

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(In thousands except per share amounts)

	Years Ended December 31, 2007	2006	2005
Operating Revenues	$ 86,114	$ 81,061	$ 74,613
Operating Expenses:			
Operations	42,117	39,799	38,636
Maintenance	4,123	3,546	3,520
Depreciation	7,539	7,060	6,460
Other Taxes	9,664	9,338	8,779
Total Operating Expenses	63,443	59,743	57,395
Operating Income	22,671	21,318	17,218
Other Income (Expense):			
Allowance for Funds Used During Construction	537	632	548
Other Income	1,153	160	220
Other Expense	(163)	(18)	(28)
Total Other Income, net	1,527	774	740
Interest Charges	6,619	7,012	6,245
Income before Income Taxes	17,579	15,080	11,713
Income Taxes	5,736	5,041	3,237
Net Income	11,843	10,039	8,476
Preferred Stock Dividend Requirements	248	248	251
Earnings Applicable to Common Stock	$ 11,595	$ 9,791	$ 8,225
Earnings per share of Common Stock:			
Basic	$ 0.88	$ 0.83	$ 0.72
Diluted	$ 0.87	$ 0.82	$ 0.71
Average Number of Common Shares Outstanding :			
Basic	13,203	11,844	11,445
Diluted	13,534	12,175	11,784
Cash Dividends Paid per Common Share	$ 0.693	$ 0.683	$ 0.673

See Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 11,843	$ 10,039	$ 8,476
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities:			
Depreciation and Amortization	8,176	7,761	7,160
Provision for Deferred Income Taxes and ITC	399	897	165
Allowance for Funds Used During Construction	-	-	(548)
Equity Portion of AFUDC	(255)	(259)	-
Cash Surrender Value of Life Insurance	(271)	(155)	-
Gain on Sale of Real Estate	(267)	-	-
Changes in Assets and Liabilities:			
Accounts Receivable	(2,752)	(463)	(1,758)
Unbilled Revenues	(596)	(276)	(165)
Materials and Supplies	101	(46)	(56)
Prepayments	(134)	(301)	(103)
Other Assets	(9)	(485)	(151)
Accounts Payable	986	(538)	(18)
Accrued Taxes	941	197	(323)
Accrued Interest	36	11	166
Employee Benefit Plans	239	(84)	710
Unearned Revenue and Advanced Service Fees	157	127	86
Other Liabilities	224	(299)	(144)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18,818	16,126	13,497
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility Plant Expenditures, Including AFUDC of $ 282 in 2007, $373 in 2006, and $0 in 2005	(21,930)	(30,734)	(25,288)
Cash Surrender Value & Other Investments	-	-	(294)
Restricted Cash	444	(1,036)	7,637
Proceeds from Real Estate Dispositions	273	-	-
Preliminary Survey and Investigation Charges	(1,847)	(1,661)	(743)
NET CASH USED IN INVESTING ACTIVITIES	(23,060)	(33,431)	(18,688)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of Long-term Debt	(2,501)	(1,915)	(1,215)
Proceeds from Issuance of Long-term Debt	3,632	5,016	14,948
Net Short-term Bank Borrowings	6,250	(4,000)	(7,000)
Deferred Debt Issuance Expenses	(50)	(28)	(166)
Common Stock Issuance Expense	(15)	(238)	-
Restricted Cash	(12)	(32)	(163)
Proceeds from Issuance of Common Stock	1,420	28,088	4,076
Payment of Common Dividends	(9,141)	(8,190)	(7,690)
Payment of Preferred Dividends	(248)	(248)	(251)
Construction Advances and Contributions-Net	1,110	1,694	1,601

NET CASH PROVIDED BY FINANCING ACTIVITIES		445		20,147		4,140
NET CHANGES IN CASH AND CASH EQUIVALENTS		(3,797)		2,842		(1,051)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		5,826		2,984		4,035
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	2,029	$	5,826	$	2,984
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:						
Utility Plant received as Construction Advances and Contributions	$	8,960	$	3,543	$	5,150
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:						
Cash Paid During the Year for:						
Interest	$	6,542	$	6,937	$	5,990
Interest Capitalized	$	(282)	$	(373)	$	(548)
Income Taxes	$	4,534	$	4,352	$	3,792

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF CAPITAL STOCK
AND LONG-TERM DEBT
(In thousands)

	December 31, 2007	December 31, 2006
Common Stock, No Par Value		
Shares Authorized - 40,000		
Shares Outstanding - 2007 - 13,246	$ 105,668	$ 104,248
2006 - 13,168		
Retained Earnings	27,441	25,001
Accumulated Other Comprehensive Income, net of tax	69	94
TOTAL COMMON EQUITY	$ 133,178	$ 129,343
Cumulative Preference Stock, No Par Value:		
Shares Authorized -100		
Shares Outstanding - None		
Cumulative Preferred Stock, No Par Value:		
Shares Authorized -139		
Shares Outstanding -37		
Convertible:		
Shares Outstanding, $7.00 Series - 14	1,457	1,457
Shares Outstanding, $8.00 Series - 12	1,399	1,399
Nonredeemable:		
Shares Outstanding, $7.00 Series - 1	102	102
Shares Outstanding, $4.75 Series - 10	1,000	1,000
TOTAL PREFERRED STOCK	$ 3,958	$ 3,958
Long-term Debt:		
8.05%, Amortizing Secured Note, due December 20, 2021	$ 2,800	$ 2,896
6.25%, Amortizing Secured Note, due May 22, 2028	8,575	8,995
6.44%, Amortizing Secured Note, due August 25, 2030	6,347	6,627
6.46%, Amortizing Secured Note, due September 19, 2031	6,627	6,907
4.22%, State Revolving Trust Note, due December 31, 2022	691	739
3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025	3,168	3,100
3.49%, State Revolving Trust Note, due January 25, 2027	603	598
4.03%, State Revolving Trust Note, due December 1, 2026	974	914
4.00% to 5.00%, State Revolving Trust Bond, due September 1, 2021	695	730
0.00%, State Revolving Fund Bond, due September 1, 2021	538	577
First Mortgage Bonds:		
5.20%, Series S, due October 1, 2022	12,000	12,000
5.25%, Series T, due October 1, 2023	6,500	6,500
6.40%, Series U, due February 1, 2009	15,000	15,000
5.25%, Series V, due February 1, 2029	10,000	10,000
5.35%, Series W, due February 1, 2038	23,000	23,000
0.00%, Series X, due September 1, 2018	591	647

4.25% to 4.63%, Series Y, due September 1, 2018	765	820
0.00%, Series Z, due September 1, 2019	1,342	1,455
5.25% to 5.75%, Series AA, due September 1, 2019	1,785	1,890
0.00%, Series BB, due September 1, 2021	1,685	1,805
4.00% to 5.00%, Series CC, due September 1, 2021	1,995	2,090
5.10%, Series DD, due January 1, 2032	6,000	6,000
0.00%, Series EE, due September 1, 2024	7,112	7,482
3.00% to 5.50%, Series FF, due September 1, 2024	8,385	8,735
0.00%, Series GG, due August 1, 2026	1,710	1,750
4.00% to 5.00%, Series HH, due August 1, 2026	1,950	1,950
0.00%, Series II, due August 1, 2027	1,750	-
3.40% to 5.00%, Series JJ, due August 1, 2027	1,750	-
SUBTOTAL LONG-TERM DEBT	134,338	133,207
Less: Current Portion of Long-term Debt	(2,723)	(2,501)
TOTAL LONG-TERM DEBT	$ 131,615	$ 130,706

See Notes to Consolidated Financial Statements.

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MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(in thousands)

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2005	11,358	$ 71,980	$ 23,103	$ 45	$ 95,128
Net Income			8,476		8,476
Minimum Pension Liability, Net of $135 Income Tax				(262)	(262)
Change in Value of Equity Investments, Net of $5 Income Tax				10	10
Comprehensive Income					8,224
Dividend Reinvestment & Common Stock Purchase Plan	195	3,640			3,640
Restricted Stock Award - Net	19	436			436
Preferred Stock Conversion	12	105			105
Cash Dividends on Common Stock			(7,690)		(7,690)
Cash Dividends on Preferred Stock			(251)		(251)
Balance at December 31, 2005	11,584	76,161	23,638	(207)	99,592
Net Income			10,039		10,039
Minimum Pension Liability, Net of $135 Income Tax				262	262
Change in Value of Equity Investments, Net of $20 Income Tax				39	39
Comprehensive Income					10,340
Dividend Reinvestment & Common Stock Purchase Plan	70	1,321			1,321
Restricted Stock Award - Net	19	275			275
Issuance of Common Stock	1,495	26,491			26,491
Cash Dividends on Common Stock			(8,190)		(8,190)
Cash Dividends on Preferred Stock			(248)		(248)
Common Stock Expenses			(238)		(238)
Balance at December 31, 2006	13,168	104,248	25,001	94	129,343
Net Income			11,843		11,843
Change in Value of Equity Investments, Net of $13 Income Tax				(25)	(25)
Comprehensive Income					11,818
	61	1,147			1,147

Dividend Reinvestment & Common Stock Purchase Plan					
Restricted Stock Award - Net	17	273			273
Cash Dividends on Common Stock			(9,141)		(9,141)
Cash Dividends on Preferred Stock			(248)		(248)
Common Stock Expenses			(15)		(15)
Other			1		1
Balance at December 31, 2007	13,246	$ 105,668	$ 27,441	$ 69	$ 133,178

See Notes to Consolidated Financial Statements.

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Middlesex Water Company

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

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

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

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

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

(c) Utility Plant is stated at original cost as defined for regulatory purposes. Property accounts are charged with the cost of betterments and major replacements of property. Cost includes direct material, labor and indirect charges for pension benefits and payroll taxes. The cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties is charged to the appropriate expense accounts. At December 31, 2007, there was no event or change in circumstance that would indicate that the carrying amount of any long-lived asset was not recoverable.

(d) Depreciation is computed by each regulated member of the Company utilizing a rate approved by the applicable regulatory authority. The Accumulated Provision for Depreciation is charged with the cost of property retired, less salvage. The following table sets forth the range of depreciation rates for the major utility plant categories used to calculate depreciation for the years ended December 31, 2007, 2006 and 2005. These rates have been approved by either the BPU or PSC:

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

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

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

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

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

(f) Allowance for Funds Used During Construction (AFUDC) - Middlesex and its regulated subsidiaries capitalize AFUDC, which represents the cost of financing projects during construction. AFUDC is added to the construction costs of individual projects exceeding specific cost and construction period thresholds established for each company and then depreciated along with the rest of the utility plant's costs over its estimated useful life. For the years ended December 31, 2007, 2006 and 2005 approximately \$0.5 million, \$0.6 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 average AFUDC rate for the years ended December 31, 2007, 2006 and 2005 for Middlesex and Tidewater were 7.45% and 7.94%, respectively.

(g) Accounts Receivable – We record bad debt expense based on historical write-offs. The allowance for doubtful accounts was \$0.3 million at December 31, 2007, \$0.3 million at December 31, 2006, and \$0.2 million at December 31, 2005. The corresponding expense for the year ended December 31, 2007, 2006 and 2005 was \$0.1 million, \$0.3 million and \$0.2 million, respectively.

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

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

USA bills customers on a quarterly or annual basis for its 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.

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

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

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

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

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

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

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

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

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," to clarify certain aspects of accounting for uncertain tax

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positions, including recognition and measurement of those tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006. The adoption of this interpretation did not materially impact the Company's results of operations and financial condition.

(n) Other Comprehensive Income – Total comprehensive income includes changes in equity that are excluded from the consolidated statements of income and are recorded into a separate section of capitalization on the consolidated balance sheets. The Company's accumulated other comprehensive income shown on the consolidated balance sheets consists of unrealized gains on investment holdings.

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

(p) Pension Plan - We maintain a noncontributory defined benefit pension plan which covers substantially all employees with more than 1,000 hours of service, and who were hired as of March 31, 2007. The discount rate utilized for determining pension costs decreased from 5.88% for the year ended December 31, 2005 to 5.52% for the year ended December 31, 2006 and increased to 5.89% for the year ended December 31, 2007. Future actual pension expense will depend on future investment performance, changes in future discount rates and various other factors related to the population participating in the pension plans.

Note 2 - Rate and Regulatory Matters

Effective October 26, 2007, Middlesex received approval from the New Jersey Board of Public Utilities (BPU) for a 9.1%, or $5.0 million increase in its base water rates. The increase was predicated on a rate base of $164.4 million and an authorized return on equity of 10.0%. Middlesex had originally filed for an $8.9 million or 16.5% base rate increase with the BPU on April 18, 2007. The rate increase is intended to recover increased costs of operations, maintenance, labor and benefits, purchased power, purchased water and taxes, as well as capital investment of approximately $23.0 million since June 2005.

On April 28, 2006, Tidewater filed for a $5.5 million, or 38.6%, base rate increase with the Delaware Public Service Commission (PSC). The request is intended to recover increased costs of operations, maintenance and taxes, as well as capital investment of approximately $23.8 million since rates were last established in March 2005. Since June 27, 2006, Tidewater has been billing and recognizing additional revenues through a 15% interim rate increase subject to refund as allowed under PSC regulations. A settlement was reached amongst the parties which concluded that a 26.9% overall increase in base rates would be implemented. The PSC approved the settlement and the remaining 11.9% increase was put into effect on February 28, 2007.

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

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2008. Under the terms of a contract with Southern Shores Homeowners Association, the increase cannot exceed the lesser of the regional Consumer Price Index or 3%.

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

	(Thousands of Dollars) December 31,		
Regulatory Assets	2007	2006	Remaining Recovery Periods
Postretirement Benefits	$ 7,279	$ 11,130	Various
Income Taxes	8,222	6,813	Various
Tank Painting	225	275	3-8 years
Rate Cases and Other	364	124	Up to 2 years
Total	$ 16,090	$ 18,342	

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

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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, 2007 and 2006, the Company has approximately $5.7 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 $0.8 million over the remaining lives of the underlying Utility Plant. These deferred costs have been included in rate base as utility plant and a return is being earned on the unamortized balances during the recovery periods.

Note 3 - Income Taxes

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

	Years Ended December 31, (Thousands of Dollars)		
	2007	2006	2005
Income Tax at Statutory Rate	$ 6,021	$ 5,155	$ 3,982
Tax Effect of:			
Utility Plant Related	(595)	(338)	(899)
State Income Taxes – Net	350	257	176
Employee Benefits	(49)	(48)	(25)
Other	9	15	3
Total Income Tax Expense	$ 5,736	$ 5,041	$ 3,237

Income tax expense is comprised of the following:

Current:			
Federal	$ 4,894	$ 3,846	$ 2,889
State	413	298	183
Deferred:			
Federal	634	884	160
State	117	92	84
Investment Tax Credits	(322)	(79)	(79)
Total Income Tax Expense	$ 5,736	$ 5,041	$ 3,237

The statutory review period for income tax returns for the years prior to 2004 has been closed. Federal income tax returns for 2005 and 2006 are currently under review by the Internal Revenue Service. Although the review is still in process, no material adjustments have been proposed by the examiner. In the event that there are interest and penalties associated with income tax adjustments, these amounts would be reported under interest expense and other expense, respectively.

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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) 2007	2006
Utility Plant Related	$ 24,892	$ 23,656
Customer Advances	(4,117)	(4,189)
Employee Benefits	(2,544)	(3,515)
Other	(291)	(173)
Total Deferred Tax Liability	$ 17,940	$ 15,779

Note 4 - Commitments and Contingent Liabilities

Guarantees - USA-PA operates the City of Perth Amboy's (Perth Amboy) water and wastewater systems under a service contract agreement through June 30, 2018. The agreement was effected under New Jersey's Water Supply Public/Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act. Under the agreement, USA-PA receives a fixed fee and a variable fee based on increased system billing. Scheduled fixed fee payments for 2007, 2006 and 2005 were $7.8 million, $7.6 million and $7.4 million, respectively. The fixed fees will increase over the term of the contract to $10.2 million.

In connection with the agreement, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately $68.0 million in three series of bonds. Middlesex guaranteed one of those series of bonds, designated the Series C Serial Bonds, in the principal amount of approximately $26.3 million. Perth Amboy guaranteed the two other series of bonds. The Series C Serial Bonds have various maturity dates with the final maturity date on September 1, 2015. As of December 31, 2007, approximately $22.6 million of the Series C Serial Bonds remained outstanding.

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

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

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

Purchased water costs are shown below:

Purchased Water	(Millions of Dollars) Years Ended December 31, 2007	2006	2005
Untreated	$ 2.4	$ 2.3	$ 2.3
Treated	2.1	1.9	1.9
Total Costs	$ 4.5	$ 4.2	$ 4.2

Construction–The Company may spend up to $36.9 million in 2008, $76.9 million in 2009 and $44.9 million in 2010 on its construction program. The development of these estimates is based in part upon projected housing development and sales in Delaware.

Litigation– In July 2005, Tidewater received a notice of violation and request for corrective action issued by the Delaware State Fire Marshal regarding the alleged failure of one of the community water systems operated by Tidewater to meet Delaware fire protection requirements. Tidewater appealed the Fire Marshal's decision with the Delaware State Fire Prevention Commission (the "SFPC") and, in November 2005, the SFPC denied Tidewater's appeal. In October 2007, Tidewater agreed to dismiss its appeal of the SFPC's decision with the Sussex County Superior Court in Delaware of the notice of violation and request for corrective action issued by the Fire Marshal. In return for the dismissal both parties have agreed that 15 of the original 67 community water systems previously identified will require certain modifications over a ten-year period in order to provide full fire protection. The expected capital investment to comply with the settlement is $12.0 to $14.0 million and will be expended ratably over the ten-year period. We will apply to the PSC to increase base rates to recover the costs of any such modifications. Although these types of modifications have routinely been included in previous rate matters, the PSC may not approve a portion or all of the costs associated with the fire protection upgrades.

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, 2007 and 2006 is summarized below:

	(Millions of Dollars) 2007	2006
Established Lines at Year-End	$ 40.0	$ 37.0
Maximum Amount Outstanding	6.6	18.2
Average Outstanding	2.6	9.5
Notes Payable at Year-End	6.3	None
Weighted Average Interest Rate	6.36%	6.13%
Weighted Average Interest Rate at Year-End	5.79%	None

The maturity date for the $6.3 million borrowing, with an interest rate of 5.79%, outstanding as of December 31, 2007 was January 7, 2008.

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

Note 6 - Capitalization

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

Common Stock
In June 2007, the number of shares authorized under the Dividend Reinvestment and Common Stock Purchase Plan (DRP) increased from 1,700,000 shares to 2,300,000 shares. The cumulative number of shares issued under the DRP at December 31, 2007, is 1,642,877. The Company also has shares authorized and outstanding under a restricted stock plan, which is described in Note 7 – Employee Benefit Plans.

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

In the event dividends on the preferred stock are in arrears, no dividends may be declared or paid on the common stock of the Company. At December 31, 2007, 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, 2007 and 2006, 36,898 shares of preferred stock presently authorized were outstanding and there were no dividends in arrears.

The conversion feature of the no par $7.00 Series Cumulative and Convertible Preferred Stock allows the security holders to exchange one convertible preferred share for twelve shares of the Company's common stock. In addition, the Company may redeem up to 10% of the outstanding convertible stock in any calendar year at a price equal to the fair market value of twelve shares of the Company's common stock for each share of convertible stock redeemed. During September 2005, 1,000 shares of the no par $7.00 Series Cumulative and Convertible Preferred Stock was converted into 12,000 of common 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.

Long-term Debt
In December 2007, Tidewater closed on a $1.1 million loan with the Delaware State Revolving Fund (SRF). This loan allows, but does not obligate, Tidewater to draw down against a General Obligation Note for two specific projects no later than July 31, 2008. The interest rate on any draw-down will be set at 3.64% with a final maturity of July 1, 2028 on the amount actually borrowed.

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

In November 2006, Middlesex issued $3.7 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust under the New Jersey SRF program. The Company closed on the first mortgage bonds designated as Series GG and HH on November 4, 2006.

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In May 2006, Tidewater closed on a $1.0 million loan with the Delaware State Revolving Fund (SRF). The proceeds were used to fund capital improvements for one specific community water system in Delaware. The interest rate on the loan is 4.03% and will have a final maturity on December 1, 2026.

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

(Millions of Dollars)

Year	Annual Maturities
2008	$2.7
2009	$3.1
2010	$3.2
2011	$3.2
2012	$3.3

The weighted average interest rate on all long-term debt at December 31, 2007 and 2006 was 5.20% and 5.28%, respectively. Except for the Amortizing Secured Notes and Series U First Mortgage Bonds, all of the Company's outstanding debt has been issued through the New Jersey Economic Development Authority ($57.5 million), the New Jersey Environmental Infrastructure Trust program ($32.1 million) and the SRF program ($5.4 million).

Restricted cash includes proceeds from the Series Y, AA, BB, CC, EE, FF, GG, HH, II and JJ 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 GG and HH proceeds can only be used for the 2007 main cleaning and cement lining program. Series II and JJ proceeds can only be used for the 2008 main cleaning and cement lining program. All other bond issuance balances in restricted cash are for debt service requirements.

Substantially all of the Utility Plant of the Company is subject to the lien of its mortgage, which also includes debt service and capital ratio covenants, certain restrictions as to cash dividend payments and other distributions on common stock. 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, 2007. Basic EPS is computed on the basis of the weighted average number of shares outstanding. Diluted EPS assumes the conversion of both the Convertible Preferred Stock $7.00 Series and $8.00 Series.

(In Thousands, Except per Share Amounts)

	2007		2006		2005	
Basic:	Income	Shares	Income	Shares	Income	Shares
Net Income	$ 11,843	13,203	$ 10,039	11,844	$ 8,476	11,445
Preferred Dividend	(248)		(248)		(251)	
Earnings Applicable to Common Stock	$ 11,595	13,203	$ 9,791	11,844	$ 8,225	11,445
Basic EPS	$ 0.88		$ 0.83		$ 0.72	

Diluted:								
Earnings Applicable to Common Stock	$	11,595	13,203	$	9,791	11,844	$	8,225	11,445
$7.00 Series Dividend		97	167		97	167		101	175
$8.00 Series Dividend		96	164		96	164		96	164
Adjusted Earnings Applicable to Common Stock	$	11,788	13,534	$	9,984	12,175	$	8,422	11,784
Diluted EPS	$	0.87		$	0.82		$	0.71	

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

	(Thousands of Dollars) At December 31,			
	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
First Mortgage Bonds	$ 103,322	$ 104,681	$ 101,124	$ 103,083
State Revolving Bonds	$ 1,233	$ 1,272	$ 1,307	$ 1,340

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 at December 31, 2007 and 2006 was $29.8 million and $30.8 million, respectively. Customer advances for construction have a carrying amount of $21.8 million and $19.2 million at December 31, 2007 and 2006, respectively. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

Note 7 - Employee Benefit Plans

Pension
The Company has a noncontributory defined benefit pension plan, which covers substantially all employees with more than 1,000 hours of service. Employees hired after March 31, 2007 are not eligible to participate in this plan, but do participate in a defined contribution plan that provides an annual contribution at the discretion of the Company based upon a percentage of the participants' compensation. In order to be eligible for an annual contribution, the eligible employee must be employed by the Company on December 31st of the year the award pertains to. In addition, the Company maintains an unfunded supplemental pension plan for its executive officers. The Accumulated Benefit Obligation for all pension plans at December 31, 2007 and 2006 was $21.6 million and $22.1 million, respectively.

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

The Company has recognized a deferred regulatory asset relating to the difference between the accrued retirement benefit costs and actual cash paid for plan premiums in years prior to 1998. Included in the regulatory asset is a transition obligation from adopting SFAS No.106, "Employers' Accounting for Postretirement Benefits Other than Pensions," on January 1, 1993. In addition to the recognition of annual accrued retirement benefit costs in rates, Middlesex is also recovering the transition obligation over 15 years. The regulatory assets at December 31, 2007 and 2006 were $0.4 million and $0.5 million, respectively.

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

The Company uses a December 31 measurement date for all of its employee benefit plans. The table below sets forth information relating to the Company's pension plans and other postretirement benefits for 2007 and 2006.

	(Thousands of Dollars) December 31,			
	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Reconciliation of Projected Benefit Obligation				
Beginning Balance	$ 31,728	$ 29,666	$ 14,698	$ 15,247
Service Cost	1,296	1,311	821	756
Interest Cost	1,807	1,703	895	804
Actuarial (Gain)/Loss	(3,081)	544	(852)	(1,655)
Benefits Paid	(1,583)	(1,496)	(495)	(454)
Ending Balance	$ 30,167	$ 31,728	$ 15,067	$ 14,698
Reconciliation of Plan Assets at Fair Value				
Beginning Balance	$ 23,028	$ 20,338	$ 6,701	$ 4,666
Actual Return on Plan Assets	1,315	2,578	324	1,045
Employer Contributions	1,808	1,608	495	1,444
Benefits Paid	(1,583)	(1,496)	(495)	(454)
Ending Balance	$ 24,568	$ 23,028	$ 7,025	$ 6,701
Funded Status	$ (5,599)	$ (8,700)	$ (8,042)	$ (7,997)
Amounts Recognized in the Consolidated Balance Sheets consist of:				
Current Liability	(308)	(308)	-	-
Noncurrent Liability	(5,291)	(8,392)	(8,042)	(7,997)
Net Liability Recognized	$ (5,599)	$ (8,700)	$ (8,042)	$ (7,997)

	(Thousands of Dollars) Years Ended December 31,					
	Pension Benefits			Other Benefits		
	2007	2006	2005	2007	2006	2005
Components of Net Periodic Benefit Cost						
Service Cost	$ 1,296	$ 1,311	$ 1,126	$ 821	$ 756	$ 622
Interest Cost	1,807	1,703	1,559	895	804	771
Expected Return on Plan Assets	(1,819)	(1,608)	(1,547)	(481)	(330)	(275)
Amortization of Net Transition Obligation	-	-	-	135	135	135
Amortization of Net Actuarial (Gain)/Loss	75	258	49	337	443	482
Amortization of Prior Service Cost	10	11	92	-	-	-
Net Periodic Benefit Cost	$ 1,369	$ 1,675	$ 1,279	$ 1,707	$ 1,808	$ 1,735

Amounts that are expected to be amortized from Regulatory Assets into Net Periodic Benefit Cost in 2008 are as follows:

	(Thousands of Dollars)	
	Pension Benefits 2008	Other Benefits 2008
Actuarial (Gain)/Loss	$ -	$ 232
Prior Service Cost	10	-
Transition Obligation	-	135

	2007	2006	2005	2007	2006	2005
Weighted Average Assumptions:						
Expected Return on Plan Assets	8.00%	8.00%	8.00%	7.50%	7.50%	7.50%
Discount Rate for:						
Benefit Obligation	6.59%	5.89%	5.52%	6.59%	5.89%	5.52%
Benefit Cost	5.89%	5.52%	5.88%	5.89%	5.52%	5.88%
Compensation Increase for:						
Benefit Obligation	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Benefit Cost	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%

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

A 9.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2007 and assumed to decline by 1.0% per year through 2010 and by 0.5% per year to 5% by year 2013. A one-percentage point change in assumed healthcare cost trend rates would have the following effects:

	(Thousands of Dollars) 1 Percentage Point	
	Increase	Decrease
Effect on Current Year's Service and Benefit Cost	$ 399	$ (301)
Effect on Benefit Obligation	2,767	(2,159)

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

Year	Pension Benefits	Other Benefits
2008	$ 1,606	$ 565
2009	1,577	582
2010	1,586	606
2011	1,652	656
2012	1,655	694
2013-2017	9,784	4,146
Totals	$ 17,860	$ 7,249

Benefit Plans Assets

The allocation of plan assets at December 31, 2007 and 2006 by asset category is as follows:

	Pension Plan		Other Benefits			
Asset Category	2007	2006	2007	2006	Target	Range
Equity Securities	59.7%	60.0%	47.0%	48.5%	60%	30-65%
Debt Securities	37.8	36.9	50.6	33.0	38%	25-70%
Cash	2.5	3.1	2.4	18.5	2%	0-10%
Total	100.0%	100.0%	100.0%	100.0%		

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

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

Equity securities include Middlesex common stock in the amounts of $0.7 million (3.0% of total plan assets) and $0.7 million (3.2 % of total plan assets) at December 31, 2007 and 2006, respectively.

For the pension plan, Middlesex made total cash contributions of $1.8 million in 2007 and expects to make cash contributions of approximately $2.0 million in 2008.

For the postretirement health benefit plan, Middlesex made total cash contributions of $0.5 million in 2007 and expects to make contributions of approximately $2.4 million in 2008.

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 $0.4 million for each of the years ended December 31, 2007, 2006 and 2005.

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

Stock-Based Compensation

The Company maintains an escrow account for 71,253 shares of the Company's common stock which were awarded under the 1997 Restricted Stock Plan, which has expired. 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 Company filed a petition with the

BPU requesting approval of stock-based compensation plan called the 2008 Restricted Stock Plan. The Company intends to seek shareholder approval for the new plan at its May 21, 2008 annual meeting of shareholders. The maximum number of shares authorized for grant under the proposed plan is 300,000 shares.

The Company recognizes compensation expense at fair value for the restricted stock awards in accordance with SFAS No.123(R), "Share-Based Payment." Compensation expense is determined by the market value of the stock on the date of the award and is being amortized over a five-year period.

The following table presents information on the Restricted Stock Plan:

	(In Thousands Except Grant Price)		
	Shares	Unearned Compensation	Weighted Average Grant Price
Balance, January 1, 2005	65	$ 606	
Granted	19	436	$ 22.95
Vested	(28)		
Amortization of Compensation Expense		(342)	
Balance, December 31, 2005	56	$ 700	
Granted	21	405	$ 19.24
Vested	(11)		
Forfeited	(2)	(38)	
Amortization of Compensation Expense		(271)	
Balance, December 31, 2006	64	$ 796	
Granted	18	344	$ 19.10
Vested	(10)		
Forfeited	(1)	(3)	
Amortization of Compensation Expense		(276)	
Balance, December 31, 2007	71	$ 861	

Note 8 – Business Segment Data

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

	(Thousands of Dollars) Years Ended December 31,		
Operations by Segments:	2007	2006	2005
Revenues:			
Regulated	$ 77,113	$ 71,948	$ 66,317
Non – Regulated	9,392	9,317	8,416
Inter-segment Elimination	(391)	(204)	(120)
Consolidated Revenues	$ 86,114	$ 81,061	$ 74,613
Operating Income:			
Regulated	$ 21,351	$ 20,062	$ 16,390
Non – Regulated	1,320	1,256	828
Consolidated Operating Income	$ 22,671	$ 21,318	$ 17,218
Depreciation:			
Regulated	$ 7,408	$ 6,936	$ 6,357
Non – Regulated	131	124	103
Consolidated Depreciation	$ 7,539	$ 7,060	$ 6,460
Other Income, Net:			
Regulated	$ 1,643	$ 951	$ 836
Non – Regulated	---	(78)	---
Inter-segment Elimination	(116)	(99)	(96)
Consolidated Other Income, Net	$ 1,527	$ 774	$ 740
Interest Expense:			
Regulated	$ 6,619	$ 7,012	