MIDDLESEX WATER CO
Form 10-Q
May 04, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post files).

Yes þ No ¨

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 number of shares outstanding of each of the registrant's classes of common stock, as of May 4, 2012: Common Stock, No Par Value: 15,710,293 shares outstanding.

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

	Three Months Ended March 31,	
	2012	2011
Operating Revenues	$23,546	$23,996
Operating Expenses:		
Operations and Maintenance	14,375	14,031
Depreciation	2,548	2,412
Other Taxes	2,746	2,785
Total Operating Expenses	19,669	19,228
Operating Income	3,877	4,768
Other Income (Expense):		
Allowance for Funds Used During Construction	136	194
Other Income	192	157
Other Expense	(140)	(49)
Total Other Income, net	188	302
Interest Charges	1,354	1,214
Income before Income Taxes	2,711	3,856
Income Taxes	904	1,226
Net Income	1,807	2,630
Preferred Stock Dividend Requirements	52	52
Earnings Applicable to Common Stock	$1,755	$2,578
Earnings per share of Common Stock:		
Basic	$0.11	$0.17
Diluted	$0.11	$0.17
Average Number of Common Shares Outstanding:		
Basic	15,692	15,576
Diluted	15,955	15,839

Cash Dividends Paid per Common Share	$0.1850	$0.1825

See Notes to Condensed Consolidated Financial Statements

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

		March 31, 2012	December 31, 2011
ASSETS			
UTILITY PLANT:	Water Production	$128,324	$127,827
	Transmission and Distribution	329,224	326,629
	General	48,067	47,519
	Construction Work in Progress	14,040	12,575
	TOTAL	519,655	514,550
	Less Accumulated Depreciation	93,740	92,351
	UTILITY PLANT - NET	425,915	422,199
CURRENT ASSETS:	Cash and Cash Equivalents	854	3,106
	Accounts Receivable, net	10,628	11,280
	Unbilled Revenues	4,587	4,842
	Materials and Supplies (at average cost)	2,003	2,023
	Prepayments	1,121	1,622
	TOTAL CURRENT ASSETS	19,193	22,873
DEFERRED CHARGES AND OTHER ASSETS:	Unamortized Debt Expense	2,570	2,611
	Preliminary Survey and Investigation Charges	5,088	5,179
	Regulatory Assets	66,760	67,302
	Operations Contracts and Developer Fees Receivable	4,957	5,300
	Restricted Cash	2,518	3,260
	Non-utility Assets - Net	8,485	8,182
	Other	647	630
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	91,025	92,464
	TOTAL ASSETS	$536,133	$537,536
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	$142,008	$141,432
	Retained Earnings	34,399	35,549
	TOTAL COMMON EQUITY	176,407	176,981
	Preferred Stock	3,353	3,353
	Long-term Debt	131,729	132,167
	TOTAL CAPITALIZATION	311,489	312,501
CURRENT LIABILITIES:	Current Portion of Long-term Debt	4,739	4,569
	Notes Payable	23,250	24,250
	Accounts Payable	4,826	5,706
	Accrued Taxes	10,144	7,847
	Accrued Interest	906	1,628
	Unearned Revenues and Advanced Service Fees	684	734
	Other	1,400	1,953
	TOTAL CURRENT LIABILITIES	45,949	46,687

COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)

DEFERRED CREDITS	Customer Advances for Construction	21,903	21,944
AND OTHER LIABILITIES:	Accumulated Deferred Investment Tax Credits	1,127	1,146
	Accumulated Deferred Income Taxes	37,421	37,022
	Employee Benefit Plans	50,372	51,007
	Regulatory Liability - Cost of Utility Plant Removal	8,217	8,029
	Other	997	994
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	120,037	120,142
CONTRIBUTIONS IN AID OF CONSTRUCTION		58,658	58,206
	TOTAL CAPITALIZATION AND LIABILITIES	$536,133	$537,536

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended March 31, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$1,807	$2,630
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,620	2,584
Provision for Deferred Income Taxes and Investment Tax Credits	514	208
Equity Portion of Allowance for Funds Used During Construction (AFUDC)	(82)	(132)
Cash Surrender Value of Life Insurance	(68)	(45)
Stock Compensation Expense	174	82
Changes in Assets and Liabilities:		
Accounts Receivable	995	1,923
Unbilled Revenues	255	196
Materials & Supplies	20	673
Prepayments	501	(123)
Accounts Payable	(880)	(1,233)
Accrued Taxes	2,297	2,411
Accrued Interest	(722)	(760)
Employee Benefit Plans	100	154
Unearned Revenue & Advanced Service Fees	(50)	30
Other Assets and Liabilities	(334)	(540)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,147	8,058
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility Plant Expenditures, Including AFUDC of $54 in 2012, $62 in 2011	(6,433)	(4,888)
Restricted Cash	742	852
NET CASH USED IN INVESTING ACTIVITIES	(5,691)	(4,036)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of Long-term Debt	(844)	(828)
Proceeds from Issuance of Long-term Debt	576	7
Net Short-term Bank Borrowings	(1,000)	800
Deferred Debt Issuance Expense	—	(19)
Repurchase of Preferred Stock	—	(9)
Proceeds from Issuance of Common Stock	402	386
Payment of Common Dividends	(2,902)	(2,842)
Payment of Preferred Dividends	(52)	(52)
Construction Advances and Contributions-Net	112	(122)
NET CASH USED IN FINANCING ACTIVITIES	(3,708)	(2,679)

NET CHANGES IN CASH AND CASH EQUIVALENTS	(2,252)	1,343
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,106	2,453
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$854	$3,796
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:		
Utility Plant received as Construction Advances and Contributions	$298	$508
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for:		
Interest	$2,187	$2,088
Interest Capitalized	$54	$62
Income Taxes	$—	$603

See Notes to Condensed Consolidated Financial Statements

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

		March 31, 2012	December 31, 2011
Common Stock, No Par Value			
Shares Authorized -	40,000		
Shares Outstanding -	2012 - 15,703	$142,008	$141,432
	2011 - 15,682		
Retained Earnings		34,399	35,549
TOTAL COMMON EQUITY		$176,407	$176,981
Cumulative Preferred Stock, No Par Value:			
Shares Authorized - 134			
Shares Outstanding - 32			
Convertible:			
Shares Outstanding, $7.00 Series - 14		1,457	1,457
Shares Outstanding, $8.00 Series - 7		816	816
Nonredeemable:			
Shares Outstanding, $7.00 Series - 1		80	80
Shares Outstanding, $4.75 Series - 10		1,000	1,000
TOTAL PREFERRED STOCK		$3,353	$3,353
Long-term Debt:			
8.05%, Amortizing Secured Note, due December 20, 2021		$2,282	$2,319
6.25%, Amortizing Secured Note, due May 19, 2028		6,790	6,895
6.44%, Amortizing Secured Note, due August 25, 2030		5,157	5,227
6.46%, Amortizing Secured Note, due September 19, 2031		5,437	5,507
4.22%, State Revolving Trust Note, due December 31, 2022		546	546
3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025		3,607	3,623
3.49%, State Revolving Trust Note, due January 25, 2027		618	633
4.03%, State Revolving Trust Note, due December 1, 2026		825	825
4.00% to 5.00%, State Revolving Trust Bond, due August 1, 2021		434	434
0.00%, State Revolving Fund Bond, due August 1, 2021		352	359
3.64%, State Revolving Trust Note, due July 1, 2028		364	364
3.64%, State Revolving Trust Note, due January 1, 2028		122	122
3.45%, State Revolving Trust Note, due August 1, 2031		45	39
6.59%, Amortizing Secured Note, due April 20, 2029		5,959	6,046

7.05%, Amortizing Secured Note, due January 20, 2030	4,458	4,521
5.69%, Amortizing Secured Note, due January 20, 2030	9,145	9,273
3.75%, State Revolving Trust Note, due July 1, 2031	2,580	2,021
3.75%, State Revolving Trust Note, due November 30, 2030	1,415	1,404
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
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	368	375
4.25% to 4.63%, Series Y, due September 1, 2018	410	410
0.00%, Series Z, due September 1, 2019	876	894
5.25% to 5.75%, Series AA, due September 1, 2019	1,080	1,080
0.00%, Series BB, due September 1, 2021	1,183	1,206
4.00% to 5.00%, Series CC, due September 1, 2021	1,400	1,400
5.10%, Series DD, due January 1, 2032	6,000	6,000
0.00%, Series EE, due August 1, 2023	4,709	4,804
3.00% to 5.50%, Series FF, due August 1, 2024	6,160	6,160
0.00%, Series GG, due August 1, 2026	1,330	1,352
4.00% to 5.00%, Series HH, due August 1, 2026	1,640	1,640
0.00%, Series II, due August 1, 2024	1,128	1,150
3.40% to 5.00%, Series JJ, due August 1, 2027	1,560	1,560
0.00%, Series KK, due August 1, 2028	1,500	1,526
5.00% to 5.50%, Series LL, due August 1, 2028	1,635	1,635
0.00%, Series MM, due August 1, 2030	1,868	1,901
3.00% to 4.375%, Series NN, due August 1, 2030	1,985	1,985
SUBTOTAL LONG-TERM DEBT	136,468	136,736
Less: Current Portion of Long-term Debt	(4,739)	(4,569)
TOTAL LONG-TERM DEBT	$131,729	$132,167

See Notes to Condensed Consolidated Financial Statements

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MIDDLESEX WATER COMPANY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation and Recent Developments

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

The consolidated notes within the 2011 Annual Report on Form 10-K (the 2011 Form 10-K) are applicable to these financial statements and, in the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (including normal recurring accruals) to present fairly the financial position as of March 31, 2012 and the results of operations and cash flows for the three month periods ended March 31, 2012 and 2011. Information included in the Condensed Consolidated Balance Sheet as of December 31, 2011, has been derived from the Company's audited financial statements for the year ended December 31, 2011 included in the 2011 Form 10-K.

Contract Awarded to USA

In March 2012, the Borough of Avalon, New Jersey (Avalon) awarded an operations and maintenance contract to USA for the Avalon water utility, sewer utility and storm water system. In addition to performing the day to day operations, USA will be responsible for all billing, collections, customer service, emergency responses and capital projects funded by Avalon. The contract is for a ten year term and USA assumes operation and maintenance of the Avalon water utility, sewer utility and storm water system on July 1, 2012.

Recent Accounting Guidance

Fair Value Measurements and Disclosures – In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2011-04, which amends Accounting Standards Codification 820, Fair Value Measurements and Disclosures, to update guidance related to fair value measurements and disclosures as a step towards achieving convergence between generally accepted accounting principles and international financial reporting standards. ASU 2011-04 clarifies intent about application of existing fair value measurements and disclosures, changes certain requirements for fair value measurements and requires expanded disclosures. ASU 2011-04 was effective for interim and annual periods beginning after December 15, 2011. The Company’s adoption of ASU 2011-04 resulted in expanded fair value disclosures and did not have any impact on the Company’s results of operations, cash flows or financial position.

Note 2 – Rate Matters

Middlesex - In January 2012, Middlesex filed an application with the New Jersey Board of Public Utilities (NJBPU) seeking permission to increase its base rates by approximately $11.3 million per year. The request was made as a result of capital investments Middlesex has made, or has committed to make, as well as increased operations and maintenance costs. We cannot predict whether the NJBPU will ultimately approve, deny, or reduce the amount of the request. A decision by the NJBPU is not expected until the fourth quarter of 2012.

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Tidewater – In September 2011, Tidewater filed an application with the Delaware Public Service Commission (DEPSC) seeking permission to increase its base rates by approximately $6.9 million per year. The request was made as a result of capital investments Tidewater has made, or has committed to make, as well as increased operations and maintenance costs. We cannot predict whether the DEPSC will ultimately approve, deny, or reduce the amount of the request. A decision by the DEPSC is not expected until the second half of 2012. In connection with the base rate increase request, Tidewater implemented a DEPSC approved 10.49% interim rate increase, subject to refund, on November 15, 2011.

TESI – In July 2011, TESI filed an application with the DEPSC seeking permission to increase its base rates by approximately $0.8 million per year. TESI and all intervening parties have reached a settlement on the base rate increase request, which would allow a $0.6 million rate increase phased in over 4.5 years. The settlement has been submitted to the Hearing Examiner for his decision, which when rendered will be presented to the DEPSC for a final decision. TESI expects that decision to be issued during the second quarter of 2012.

Note 3 – Capitalization

Common Stock

During the three months ended March 31, 2012, there were 21,449 common shares (approximately $0.4 million) issued under the Company's Amended and Restated Dividend Reinvestment and Common Stock Purchase Plan (DRP).

Long-term Debt

On May 3, 2012, Middlesex borrowed $3.9 million through the New Jersey Environmental Infrastructure Trust under the New Jersey State Revolving Fund (SRF) loan program and issued first mortgage bonds designated as Series OO ($3.0 million) and Series PP ($0.9 million). Proceeds will be recorded as Restricted Cash and will be used for the Middlesex 2012 RENEW Program.

In March 2011, Tidewater closed on a $2.8 million loan with the Delaware SRF program which allows, but does not obligate, Tidewater to draw against a General Obligation Note for a specific project. The interest rate on any draw will be set at 3.75% with a final maturity of July 1, 2031 on the amount actually borrowed. As of March 31, 2012, Tidewater has borrowed $2.6 million against this loan.

In March 2011, Southern Shores closed on a $1.6 million loan with the Delaware SRF program, which allows, but does not obligate, Southern Shores to draw against a General Obligation Note for a specific project no later than July

31, 2011. The interest rate on any draw will be set at 3.75% with a final maturity of November 30, 2030 on the amount actually borrowed. As of March 31, 2012, Southern Shores has borrowed $1.4 million against this loan.

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 condensed consolidated balance sheets for cash and cash equivalents, trade receivables, accounts payable and notes payable approximate their respective fair values due to the short-term maturities of these instruments. The fair value of the Company’s long-term debt relating to First Mortgage and SRF Bonds is based on quoted market prices for similar issues. Under the fair value hierarchy, the fair value of cash and cash equivalents is classified as a Level 1 measurement and the fair value of notes payable and the First Mortgage and SRF Bonds in the table below are classified as Level 2 measurements. The carrying amount and fair market value of the Company’s bonds were as follows:

	(Thousands of Dollars)			
	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
First Mortgage Bonds	$86,333	$87,364	$86,577	$87,283
SRF Bonds	$785	$791	$793	$799

For other long-term debt for which there was no quoted market price, it was not practicable to estimate their fair value. The carrying amount of these instruments was $49.4 million at March 31, 2012 and $49.3 million at December 31, 2011. Customer advances for construction have a carrying amount of $21.9 million at March 31, 2012 and December 31, 2011. 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.

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Note 4 – Earnings Per Share

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

	(In Thousands Except per Share Amounts)			
	Three Months Ended March 31,			
Basic:	2012	Shares	2011	Shares
Net Income	$1,807	15,692	$2,630	15,576
Preferred Dividend	(52)		(52)	
Earnings Applicable to Common Stock	$1,755	15,692	$2,578	15,576
Basic EPS	$0.11		$0.17	
Diluted:				
Earnings Applicable to Common Stock	$1,755	15,692	$2,578	15,576
$7.00 Series Preferred Dividend	24	167	24	167
$8.00 Series Preferred Dividend	14	96	14	96
Adjusted Earnings Applicable to Common Stock	$1,793	15,955	$2,616	15,839
Diluted EPS	$0.11		$0.17	

Note 5 – Business Segment Data

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

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	(In Thousands) Three Months Ended March 31,	
Operations by Segments:	2012	2011
Revenues:		
Regulated	$20,858	$21,236
Non – Regulated	2,758	2,841
Inter-segment Elimination	(70)	(81)
Consolidated Revenues	$23,546	$23,996
Operating Income:		
Regulated	$3,503	$4,335
Non – Regulated	374	433
Consolidated Operating Income	$3,877	$4,768
Net Income:		
Regulated	$1,587	$2,373
Non – Regulated	220	257
Consolidated Net Income	$1,807	$2,630
Capital Expenditures:		
Regulated	$6,039	$4,832
Non – Regulated	394	56
Total Capital Expenditures	$6,433	$4,888

	As of March 31, 2012	As of December 31, 2011
Assets:		
Regulated	$536,138	$539,947
Non – Regulated	10,201	10,325
Inter-segment Elimination	(10,206)	(12,736)
Consolidated Assets	$536,133	$537,536

Note 6 – Short-term Borrowings

As of March 31, 2012, the Company has established lines of credit aggregating $60.0 million. At March 31, 2012, the outstanding borrowings under these credit lines were $23.3 million at a weighted average interest rate of 1.27%.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were $23.8 million and $17.3 million at 1.31% and 1.60% for the three months ended March 31, 2012 and 2011, respectively.

The maturity dates for the $23.3 million outstanding as of March 31, 2012 are all in April 2012 and are extendable at the discretion of the Company.

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

Note 7 – Commitments and Contingent Liabilities

Contract Operations - USA-PA operates the City of Perth Amboy, NJ's water and wastewater systems under a 20-year agreement, which expires in 2018. 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 collection system. The subcontract provides for the sharing of certain fixed and variable fees and operating expenses.

Water Supply

Middlesex has an agreement with the 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, 2016, provides for the minimum purchase of 3 mgd of treated water with provisions for additional purchases.

Purchased water costs are shown below:

	(In Thousands) Three Months Ended March 31,	
	2012	2011
Purchased Water		
Treated	$719	$640
Untreated	612	606
Total Costs	$1,331	$1,246

Construction

The Company has budgeted approximately $21.8 million on its construction program in 2012. The actual amount and timing of capital expenditures is dependent on project scheduling and refinement of engineering estimates for certain projects.

Litigation

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

Change in Control Agreements

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

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Note 8 – Employee Benefit Plans

Pension Benefits

The Company's Pension Plan covers substantially all employees hired prior to March 31, 2007. 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 into a self-directed retirement account at the discretion of the Company, based upon a percentage of the participants' compensation. In order to be eligible for contribution, the participating employee must be employed by the Company on December 31st of the year to which the award relates. For the three months ended March 31, 2012 and 2011, the Company made Pension Plan cash contributions of $0.8 million and $0.4 million, respectively. The Company expects to make additional Pension Plan cash contributions of approximately $3.3 million over the remainder of the current year. The Company also maintains an unfunded supplemental retirement benefit plan for certain active and retired Company officers and currently pays $0.3 million in annual benefits to the retired participants.

Other Benefits

The Company's Other Benefits Plan covers substantially all of its retired employees. Employees hired after March 31, 2007 are not eligible to participate in this plan. Coverage includes healthcare and life insurance. For the three months ended March 31, 2012 and 2011, the Company made Other Benefits Plan cash contributions of $0.8 million and $0.5 million, respectively. The Company expects to make additional Other Benefits Plan cash contributions of approximately $4.0 million over the remainder of the current year.

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

	(In Thousands)			
	Pension Benefits		Other Benefits	
	Three Months Ended March 31,			
	2012	2011	2012	2011
Service Cost	$550	$394	$446	$326
Interest Cost	604	565	467	401
Expected Return on Assets	(615)	(571)	(314)	(256)
Amortization of Unrecognized Losses	387	141	441	219
Amortization of Unrecognized Prior Service Cost	2	2	—	—
Amortization of Transition Obligation	—	—	34	34
Net Periodic Benefit Cost	$928	$531	$1,074	$724

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of Middlesex Water Company (Middlesex or the Company) included elsewhere herein and with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Forward-Looking Statements

Certain statements contained in this periodic 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, including the recovery of certain costs recorded as regulatory assets;
- statements as to the Company's expected liquidity needs during the upcoming fiscal year 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 rate increase requests;
- new or additional water quality standards;
- weather variations and other natural phenomena;
- the existence of financially attractive acquisition candidates and the risks involved in pursuing those acquisitions;
- acts of war or terrorism;
- significant changes in the pace of housing development in Delaware;
- the availability and cost of capital resources;
- the ability to translate Preliminary Survey & Investigation (PS&I) charges into viable projects; and
- other factors discussed elsewhere in this quarterly report.

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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 report or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

For an additional discussion of factors that may affect the Company’s business and results of operations, see Item 1A. - Risk Factors in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Overview

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

Our New Jersey water utility system (the Middlesex System) provides water services to approximately 60,000 retail customers, primarily in central New Jersey. The Middlesex System also provides water service under contract to several municipalities in central New Jersey. In partnership with our subsidiary, USA-PA, we operate the water supply system and wastewater system for the City of Perth Amboy, New Jersey. Our Bayview system provides water services in Downe Township, New Jersey. Our other New Jersey subsidiaries, Pinelands Water Company and Pinelands Wastewater Company (collectively, Pinelands), provide water and wastewater services to residents in Southampton Township, New Jersey.

USA offers residential customers in New Jersey and Delaware water service line and sewer lateral maintenance programs, which are serviced by HomeServe USA (HomeServe), a leading provider of home maintenance service programs. HomeServe has recently expanded its maintenance offerings under the program to include other household services. USA receives a service fee for the billing, cash collection and other administrative matters associated with HomeServe’s service contracts. In February 2012, USA began to operate a wastewater treatment facility under contract at an industrial site in Southern New Jersey. Beginning July 1, 2012, USA will operate the water and sewer utilities and storm water system of the Borough of Avalon, New Jersey.

Our Delaware subsidiaries, Tidewater and Southern Shores Water Company, LLC (Southern Shores), provide water services to approximately 36,000 retail customers in New Castle, Kent and Sussex Counties, Delaware. Tidewater's subsidiary, White Marsh, services an additional 4,700 customers in Kent and Sussex Counties through various operations and maintenance contracts.

Our Tidewater Environmental Services, Inc. (TESI) subsidiary provides wastewater services to approximately 2,200 residential retail customers. We expect the growth of our regulated wastewater operations in Delaware will eventually become a more significant component of our operations.

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

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

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

Recent Developments

Rate Matters

Middlesex - In January 2012, Middlesex filed an application with the New Jersey Board of Public Utilities (NJBPU) seeking permission to increase its base rates by approximately $11.3 million per year. The request was made as a result of capital investments Middlesex has made, or has committed to make, as well as increased operations and maintenance costs. We cannot predict whether the NJBPU will ultimately approve, deny, or reduce the amount of the request. A decision by the NJBPU is not expected until the fourth quarter of 2012.

Tidewater – In September 2011, Tidewater filed an application with the Delaware Public Service Commission (DEPSC) seeking permission to increase its base rates by approximately $6.9 million per year. The request was made as a result of capital investments Tidewater has made, or has committed to make, as well as increased operations and maintenance costs. We cannot predict whether the DEPSC will ultimately approve, deny, or reduce the amount of the request. A decision by the DEPSC is not expected until the second half of 2012. In connection with the base rate increase request, Tidewater implemented a DEPSC approved 10.49% interim rate increase, subject to refund, on November 15, 2011.

TESI – In July 2011, TESI filed an application with the DEPSC seeking permission to increase its base rates by approximately $0.8 million per year. TESI and all intervening parties have reached a settlement on the base rate increase request, which would allow a $0.6 million rate increase phased in over 4.5 years. The settlement has been submitted to the Hearing Examiner for his decision, which when rendered will be presented to the DEPSC for a final decision. TESI expects that decision to be issued during the second quarter of 2012.

Contract Awarded to USA

In March 2012, the Borough of Avalon, New Jersey (Avalon) awarded an operations and maintenance contract to USA for the Avalon water utility, sewer utility and storm water system. In addition to performing the day to day operations, USA will be responsible for all billing, collections, customer service, emergency responses and capital projects funded by Avalon. The contract is for a ten year term and USA assumes operation and maintenance of the Avalon water utility, sewer utility and storm water system on July 1, 2012.

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Outlook

Revenues for 2012 are expected to be favorably impacted by interim and final approved rate increases at Middlesex, Tidewater, TESI, Southern Shores and Twin Lakes. In addition, Pinelands Water and Pinelands Wastewater expect to file for rate increases in 2012. The rate increases that Middlesex, Tidewater, TESI, Pinelands Water and Pinelands Wastewater filed, or expect to file, have not been approved by each company's respective Utility Commission. There can be no assurances that the requested rate increases will be approved in whole or in part or when the final decisions will be rendered.

Ongoing economic conditions continue to negatively impact our customers' water consumption, particularly the level of water usage by our commercial and industrial customers in our Middlesex system. We are unable to determine when these customers' water demands may fully return to previous levels, or if a reduced level of demand will continue indefinitely. We were given appropriate recognition for a portion of this decrease in customer consumption in Middlesex's March 2010 rate increase and we are seeking similar treatment in the current rate increase request, but there can be no assurances such recognition will be granted by the NJBPU.

Revenues and earnings are influenced by weather. Changes in usage patterns, as well as increases in capital expenditures and operating costs, are the primary factors in determining the need for rate increase requests. We continue to implement plans to streamline operations and reduce operating costs.

Changes in certain actuarial assumptions, including a lower discount rate and revised plan participant mortality factors, as well as a lower actual return in 2011 on assets held in our retirement plan funds resulted in a significant increase in our underfunded employee benefit plan obligation and will result in higher employee benefit plan expense and cash contributions in 2012. Tidewater and Middlesex have included these increased plan expenses in their rate increase applications currently under review by the respective Utility Commissions.

As a result of ongoing challenging economic conditions impacting the pace of new residential home construction, there may be an increase in the amount of PS&I costs that will not be currently recoverable in rates. If it is determined that recovery is unlikely, the applicable PS&I costs will be charged against income in the period of determination.

Our strategy is focused on four key areas:

- Serve as a trusted and continually-improving provider of safe, reliable and cost-effective water, wastewater and related services;

- Provide a comprehensive suite of water and wastewater solutions in the continually-developing Delaware market that results in profitable growth;

- Pursue profitable growth in our core states of New Jersey and Delaware, as well as additional states; and

- Invest in products, services and other viable opportunities that complement our core competencies.

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Operating Results by Segment

The discussion of the Company's operating results is on a consolidated basis and includes significant factors by subsidiary. The Company has two operating segments, Regulated and Non-Regulated.

The segments in the tables included below consist of the following companies: Regulated-Middlesex, Tidewater, Pinelands, Southern Shores, TESI and Twin Lakes; Non-Regulated- USA, USA-PA, and White Marsh.

Results of Operations – Three Months Ended March 31, 2012

	(In Thousands)					
	Three Months Ended March 31,					
	2012			2011		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	$20,841	$ 2,705	$23,546	$21,208	$ 2,788	$23,996
Operations and maintenance expenses	12,156	2,219	14,375	11,780	2,251	14,031
Depreciation expense	2,512	36	2,548	2,375	37	2,412
Other taxes	2,670	76	2,746	2,718	67	2,785
Operating income	3,503	374	3,877	4,335	433	4,768
Other income, net	141	47	188	246	56	302
Interest expense	1,332	22	1,354	1,188	26	1,214
Income taxes	725	179	904	1,020	206	1,226
Net income	$1,587	$ 220	$1,807	$2,373	$ 257	$2,630

Operating Revenues

Operating revenues for the three months ended March 31, 2012 decreased $0.5 million from the same period in 2011. This decrease was primarily related to the following factors:

· Middlesex System revenues decreased $0.8 million, primarily due to:

o

Sales to General Metered Service (GMS) customers decreased by $0.5 million due to decreased customer demand for water. The decline in water use by our GMS customers includes commercial and industrial (C&I) customers. Several of the larger industrial customers' consumption demands have decreased due to reduced output from their production processes. We have also seen a decline in consumption from our commercial customers, which are generally office facilities, guest facilities and multi-family residential facilities. Certain of our C&I customers are unable to determine when their water demands may return to previous levels or if the declines will continue; and

o Contract Sales to Municipalities decreased by $0.3 million due to lower customer demand for water.

· Tidewater System revenues increased $0.4 million, primarily due to the 10.49% interim rate increase that went into effect in November 2011 and increased connection fees.

· Revenues from all other subsidiaries decreased $0.1 million.

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Operation and Maintenance Expense

Operation and maintenance expenses for the three months ended March 31, 2012 increased $0.3 million from the same period in 2011. This increase was primarily related to the following factors:

- Postretirement benefit plan expenses increased $0.5 million, primarily due to changes in certain actuarial assumptions, including a lower discount rate and revised plan participant mortality factors, as well as a lower actual return on assets held in our retirement plan funds;
- Costs associated with main breaks decreased $0.1 million, due to favorable winter weather conditions, which led to below average number of main breaks in the first quarter of 2012; and
- Labor costs decreased $0.1 million primarily due to higher capitalized payroll and less overtime expended on main breaks.

Depreciation

Depreciation expense for the three months ended March 31, 2012 increased $0.1 million from the same period in 2011 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the three months ended March 31, 2012 was down slightly due to lower revenue related taxes for our New Jersey operations compared to the same period in 2011.

Interest Charges

Interest charges for the three months ended March 31, 2012 increased $0.1 million from the same period in 2011, primarily due to higher average short term debt outstanding in the first quarter of 2012 as compared to the first quarter of 2011.

Other Income, net

Other Income, net for the three months ended March 31, 2012 decreased $0.1 million from the same period in 2011, primarily due to increased Other Expenses of $0.1 million for certain costs related to potential projects at our Delaware subsidiaries.

Income Taxes

Income taxes for the three months ended March 31, 2012 decreased $0.3 million from the same period in 2011, due to decreased operating income in 2012 as compared to 2011.

Net Income and Earnings Per Share

Net income for the three months ended March 31, 2012 decreased $0.8 million from the same period in 2011. Basic and diluted earnings per share decreased to $0.11 for the three months ended March 31, 2012 as compared to $0.17 for the three months ended March 31, 2011.

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Liquidity and Capital Resources

Operating Cash Flows

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

For the three months ended March 31, 2012, cash flows from operating activities decreased $0.9 million to $7.1 million. Decreased earnings was the primary reason for the decrease in cash flow. The $7.1 million of net cash flow from operations enabled us to fund 100% of our utility plant expenditures internally for the period.

Capital Expenditures and Commitments

To fund our capital program, we use internally generated funds, short-term and long-term debt borrowings and, when market conditions are favorable, proceeds from sales of common stock under our Amended and Restated Dividend Reinvestment and Common Stock Purchase Plan (DRP) and common stock offerings. See below for a more detailed discussion regarding the funding of our capital program.

The capital investment program for 2012 is currently estimated to be $21.8 million. Through March 31, 2012, we have expended $6.4 million and expect to incur approximately $15.4 million for capital projects for the remainder of 2012.

We currently project that we may be required to expend approximately $34.0 million for capital projects in 2013 and 2014. The actual amount and timing of capital expenditures is dependent on project scheduling and refinement of engineering estimates for certain capital projects..

To fund our capital program for the remainder of 2012, we plan on utilizing:

- Internally generated funds
- Proceeds from the sale of common stock through the DRP
- Funds available and held in trust under existing Delaware State Revolving Fund (SRF) loans (currently, $1.5 million). The SRF programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks.
- Funds from a $3.9 million New Jersey SRF loan that closed on May 3, 2012.
- Short-term borrowings, if necessary, through $60.0 million of available lines of credit with several financial institutions. As of March 31, 2012, the outstanding borrowings under these credit lines were $23.3 million.

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

Item 3. Quantitative and Qualitative Disclosures of Market Risk

The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2018 to 2038. Over the next twelve months, approximately $4.7 million of the current portion of 32 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.

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Item 4. Controls and Procedures

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities and Exchange Act of 1934 (the Exchange Act), an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted by the Company's Chief Executive Officer along with the Company's Chief Financial Officer. Based upon that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this Report. There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding disclosure.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

The information about risk factors does not differ materially from those set forth in Part I, Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6.Exhibits

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

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

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

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

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SIGNATURES

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

MIDDLESEX WATER
COMPANY

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

Date: May 4, 2012