

PART II

Item 5.	Market for the Registrant's Common Equity and Related Stockholder Matters: Price Range of Common Stock	11
	Approximate Number of Equity Security Holders as of December 31, 1997	11
	Dividends	11
Item 6.	Selected Financial Data	12
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 8.	Financial Statements and Supplementary Data	12
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	12

PART III

Item 10.	Directors and Executive Officers of the Registrant	12
Item 11.	Executive Compensation	12
Item 12.	Security Ownership of Certain Beneficial Owners and Management	12
Item 13.	Certain Relationships and Related Transactions	12

PART IV

Item 14.	Exhibits, Financial Statement Schedules and Reports on Form 8-K	13
Signatures		14
Exhibit Index		15

PART I

ITEM 1. BUSINESS

GENERAL

Middlesex Water Company (together with its subsidiaries, the "Company"), has operated as a water utility in New Jersey since its organization in 1897. The Company is in the business of collecting, treating and distributing water for domestic, commercial, industrial and fire protection purposes in New Jersey and, since 1992, in the State of Delaware through its wholly owned subsidiary, Tidewater Utilities, Inc. (Tidewater). In July, 1997, the Company completed the stock purchase of Public Water Supply Company, Inc. ("Public"), a 2,500 customer system in Southern Delaware; Public is held as a wholly owned subsidiary of Tidewater. In April 1995, the Company, through two wholly owned New Jersey subsidiaries, Pinelands Water Company and Pinelands Wastewater Company (jointly "Pinelands") completed an asset purchase of a 2,200 customer water utility and a 2,200 customer wastewater utility in Burlington County, New Jersey. In January 1995, the Company formed a corporation, Utility Service Affiliates, Inc., (USA), for the purpose of providing contract operations and maintenance services for non-affiliated water and wastewater systems.

RETAIL SALES

MIDDLESEX SYSTEM:

The Company's Middlesex System, which produced approximately 91% of the Company's total revenue in 1997, provides water services to retail customers primarily in eastern Middlesex County, New Jersey. Water services are now furnished to approximately 54,000 retail customers located in an area of approximately 55 square miles of New Jersey in Woodbridge Township, the Boroughs of Metuchen and Carteret, portions of Edison Township and the Borough of South Plainfield in Middlesex County and, to a minor extent, a portion of the Township of Clark in Union County. The retail customers include a mix of residential customers, large industrial concerns and commercial and light industrial facilities. These retail customers are located in generally well developed areas of central New Jersey.

PINELANDS SYSTEM:

The Company's Pinelands System, which produced approximately 2% of the Company's total revenue in 1997, provides water and wastewater services to approximately 2,200 retail customers in Burlington County, New Jersey.

TIDEWATER SYSTEM:

The Company's Tidewater System (through Tidewater and Public), which produced approximately 7% of the Company's total revenue in 1997, provides water services to approximately 10,000 retail customers for domestic, commercial and fire protection purposes in over 100 community water systems located in Kent, Sussex and New Castle Counties in Delaware.

CONTRACT SALES

The Company's Middlesex System also provides water on a wholesale basis in New Jersey to the Township of Edison (Edison), the Borough of Highland Park (Highland Park), the City of South Amboy (South Amboy), the Old Bridge Municipal Utilities Authority (Old Bridge), the Borough of Sayreville (Sayreville) and the Marlboro Township Municipal Utilities Authority (Marlboro). Under special contract, the Middlesex System also provides water treatment and pumping services to the Township of East Brunswick (East Brunswick). These municipal contract customers comprise an area of approximately 141 square miles and have a total population of approximately 267,000. The contract sales to Edison, Old Bridge, Sayreville and Marlboro 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 permit a reduced use of ground water in this area. The Middlesex System provides water under long-term supply agreements to Marlboro, Old Bridge, Sayreville, and South Amboy consistent with the State approved plan.

CONTRACT SERVICES

The Company and USA jointly entered into a five-year contract with South Amboy to operate and maintain the City's 2,600 customer water system in May, 1995. The contract is subject to renewal for three future five-year periods.

FINANCIAL INFORMATION

Consolidated operating revenues and operating income relating primarily to operating water utilities are as follows:

	(000's)		
	Years Ended December 31,		

	1997	1996	1995
	----	----	----
Operating Revenues	\$40,294	\$38,025	\$37,847
	=====	=====	=====
Operating Income	\$ 8,768	\$ 8,222	\$ 8,662
	=====	=====	=====

Operating revenues were derived from the following sources:

	Years Ended December 31,		

	1997	1996	1995
	----	----	----
Residential	40.3%	39.7%	40.2%
Commercial	11.4	11.4	11.6
Industrial	16.5	17.4	17.6
Fire Protection	11.6	12.2	12.0
Contract Sales	18.3	17.8	17.6
Other	1.9	1.5	1.0
	----	----	----
TOTAL	100.0%	100.0%	100.0%
	-----	-----	-----

WATER SUPPLIES AND CONTRACTS

The Company's water utility plant consists of source of supply, pumping, water treatment, transmission, distribution and general facilities located in New Jersey and Delaware. The Company's New Jersey and Delaware water supply systems are physically separate and are not interconnected. In addition, the Pinelands system is not interconnected to the Middlesex system. In the opinion of management, the Company has adequate sources of water supply to meet the current and anticipated future service requirements of its present customers in New Jersey and Delaware.

The Company's Middlesex System obtains water from both surface and groundwater sources. In 1997, surface sources of water provided approximately 64% of the Middlesex System's water supply, groundwater from wells provided approximately 29% and the balance of 7% was purchased from Elizabethtown Water Company (Elizabethtown), a nonaffiliated water utility. Middlesex System's distribution storage facilities are used to supply water to its customers at times of peak demand, outages and emergencies.

The principal source of surface supply for the Middlesex System is the Delaware and Raritan Canal (D&R Canal), owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority (NJWSA). The Company has contracts with the NJWSA to divert a maximum of 20 million gallons per day (mgd) of untreated water from the D&R Canal as augmented by the Round Valley/Spruce Run Reservoir System. In addition, the Company has a one-year agreement for an additional 5 mgd renewed through April 30, 1998. The Company also has an agreement with Elizabethtown, effective through December 31, 2005, which provides for the minimum purchase of 3 mgd of treated water with provisions for additional purchases.

The Company's Middlesex System also derives water from groundwater sources equipped with electric motor-driven deep-well turbine type pumps. The Middlesex System has 32 wells, which provide a pump capacity of approximately 27 mgd. The Company also owns water diversion rights with respect to Robinson's Branch Reservoir in the Township of Clark, New Jersey for possible future use.

The Middlesex System's groundwater sources are:

Middlesex System	No. of Wells	1997 Maximum Daily Pumpage (millions of gallons)	Pump Capacity (mgd)	Location
Park Avenue	15	11.4	15.2	South Plainfield
Tingley Lane North	4	3.2	2.8	Edison
Tingley Lane South	5	1.3	2.6	Edison
Spring Lake	4	1.3	2.8	South Plainfield
Sprague Avenue #1	1	1.0	1.1	South Plainfield
Sprague Avenue #2	1	1.3	1.3	South Plainfield
Maple Avenue	1	0.8	0.9	South Plainfield
Thermal Well	1	0.2	0.2	Edison
	--			
Total	32			
	--			

PINELANDS SYSTEM:

The Pinelands System obtains its water supply from four (4) wells drilled into the Mt. Laurel aquifer. The wells are equipped with three electric motor driven deep well turbine pumps and one is equipped with a electric motor driven submersible pump. Treatment (disinfection only) is done at individual well sites.

The Pinelands System's groundwater sources are:

Pinelands System	No. of Wells	1997 Maximum Daily Pumpage (millions of gallons)	Pump Capacity (mgd)	Location
----- Leisuretowne/Hampton Lakes	4	2.1	2.2	Southampton Township

The Pinelands wastewater system discharges into the south branch of the Rancocas Creek through a tertiary treatment plant. The total capacity of the plant is 0.5 mgd. Current average flow is 0.3 mgd. Pinelands has a current valid NJPDES permit issued by the New Jersey Department of Environmental Protection (DEP).

TIDEWATER SYSTEM:

Water supply to Delaware customers is derived from Tidewater's 84 wells, which provided overall system delivery of 461 million gallons (mg) during 1997 and from Public's 31 wells, which provided overall system delivery of 51 mg during 1997. The Tidewater System does not have a central treatment facility. Several of the water systems in Sussex County and New Castle County have interconnected transmission systems. Tidewater currently has applications before the Delaware regulatory authorities for the approval of additional wells. Treatment is by chlorination and, in some cases, pH correction and filtration.

COMPETITION

The business of the Company in its franchised service areas is substantially free from direct competition with other public utilities, municipalities and other entities; however, its ability to provide some 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 Delaware Department of Natural Resources and Environmental Control (DNREC) awarding franchises to other regulated water purveyors.

REGULATION

The Company is subject to regulation as to its rates, services and other matters by the States of New Jersey and Delaware with respect to utility service within those states and with respect to environmental and water quality matters. The Company is also subject to regulation as

to environmental and water quality matters by the United States Environmental Protection Agency (EPA).

REGULATION OF RATES AND SERVICES

The Company's New Jersey operations are subject to regulation by the New Jersey Board of Public Utilities (BPU). Similarly, the Company's Delaware operations are subject to regulation by the Delaware Public Service Commission (PSC). These regulatory authorities have jurisdiction with respect to rates, service, accounting procedures, the issuance of securities and other matters of utility companies operating within the States of New Jersey and Delaware, respectively. The Company, for ratemaking purposes, accounts separately for each of its operations in New Jersey and in Delaware so as to facilitate independent ratemaking by the BPU for New Jersey operations and the PSC for Delaware operations.

In determining rates for the Company, 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 that property, each within its separate jurisdiction. Rate determinations by the BPU do not guarantee a particular rate of return to the Company for its New Jersey operations nor do rate determinations by the PSC guarantee a particular rate of return for Tidewater's Delaware operations. Thus, the Company may not achieve the rates of return permitted by the BPU or the PSC.

In January 1998, the BPU approved a rate increase of approximately 4.4% or an increase in annual revenues of \$1,547,000 for the Company's Middlesex System. In April, 1993, the BPU approved a rate increase of 9.33% or an increase in annual revenues of \$2,765,000. The Company expects to continue to seek rate relief from the BPU as increases in operating expenses, construction and financing expenses and other costs of doing business in New Jersey warrant.

In January 1997, the BPU approved a rate increase for the Company's Pinelands System which will ultimately result in additional revenues of approximately \$400,000 per year; the additional revenues will be fully realized after a three-year phase in period.

WATER QUALITY AND ENVIRONMENTAL REGULATIONS

Both the EPA and the DEP regulate the Company's operation in New Jersey with respect to water supply, treatment and distribution systems and the quality of the water, as do the EPA, the DNREC and the Delaware Department of Health with respect to operations in Delaware.

Federal, Delaware and New Jersey regulations adopted over the past five years relating to water quality require expanded types of testing by the Company to insure that its water meets State and Federal water quality requirements. In addition, the environmental regulatory agencies are reviewing current regulations governing the limits of certain organic compounds found in the water as by-products of treatment. The Company, as do many other water companies, participates 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 regulation and on the method selected to implement such reduction; the Company believes that the upgrade and expansion of the Carl J. Olsen Water Treatment Plant (CJO Plant) in Edison, New Jersey, will allow the Company to be in a stronger position to meet any such future standards with regard to its Middlesex System. The regular testing by the

Company of the water it supplies shows that the Company is in compliance with existing Federal, New Jersey and Delaware primary water quality standards.

As required by the Federal Safe Drinking Water Act (FSDWA), the EPA has established maximum contaminant levels (MCLs) for various substances found in drinking water. As authorized by similar state legislation, the DEP has set MCLs for certain substances which are more restrictive than the MCLs set by the EPA. In certain cases, the EPA and the DEP have also mandated that certain treatment procedures be followed in addition to satisfying MCLs established for specific contaminants. The DEP and the Delaware Department of Health have assumed primacy for enforcing the FSDWA in New Jersey and Delaware, respectively, and, in that capacity, monitor the activities of the Company and review the results of water quality tests performed by the Company for adherence to applicable regulations.

Other regulations applicable to water utilities generally, including the Company, include the Lead and Copper Rule (LCR), the MCLs established for various volatile organic compounds (VOCs), the Federal Surface Water Treatment Rule, and the Total Coliform Rule (TCR), and the Information Collection Rule (ICR).

The LCR requires the Company to test on a sample basis the quantity of lead and copper in drinking water at the customer's tap and, if certain contaminant levels (Action Levels) are exceeded, to notify customers, initiate a public information campaign advising customers how to minimize exposure to lead and copper, add corrosion inhibitors to water to minimize leaching of lead from piping, faucets and soldered joints into water consumed at the tap, and implement applicable source water treatment requirements. Tests taken within the Company's system yielded results well below the Action Levels.

VOCs, including primarily petro-chemicals, may percolate into groundwater aquifers from surface sources. The Company has found VOCs in excess of the applicable MCLs in certain of the Middlesex System wells and has constructed air stripping facilities which remove such contaminants. In 1990 the air stripping facility was complete at the Spring Lake Well Field. Construction of a similar facility, along with a 2 mg storage reservoir, was completed in 1993 and is operational to treat water from the Park Avenue and Sprague Avenue Well Fields. To the extent that contamination in excess of applicable MCLs occurs at wells lacking air stripping and related facilities, the Company will consider building such facilities if feasible and cost effective. VOCs have not been detected in the Delaware or Pinelands' wells.

The SWTR established disinfection requirements for surface supplies and for groundwater under the influence of surface water. Where required, the Company provides disinfection for both surface and groundwater supplies. Similarly, the TCR requires testing for the presence or absence of all coliform in the water supply based upon a schedule of testing frequency determined with reference to the population served. Testing is ongoing and the Company maintains compliance with the TCR. ICR generally requires disinfection monitoring, microbial monitoring and disinfection byproduct precursor removal studies, and certain reporting requirements. The Company maintains compliance with ICR.

Federal and State regulations and controls concerning water quality, pollution and the effluent from treatment facilities are still in the process of being developed, and it is not possible to predict the scope or enforceability of regulations or standards which may be established in the future, or the cost and effect of existing and potential regulations and legislation upon any of the existing and proposed facilities and operations of the Company. Further, recent and possible

future developments with respect to the identification and measurement of various elements in water supplies and concern with respect to the impact of one or more of such elements on public health may in the future require the Company to replace or modify all or portions of their various water supplies, to develop replacement supplies and/or to implement new treatment techniques. In addition, the Company anticipates that threatened and actual contamination of water sources may become an increasing problem in the future. The Company has expended and may in the future be required to expend substantial amounts to prevent or remove said contamination or to develop alternative water supplies. Any such developments may increase operating costs and capital requirements. Since the rate regulation methodology of both the BPU and the PSC permits a utility to recover through rates prudently incurred expenses and investments in plant, based upon past BPU and PSC practice, the Company expects that all such expenditures and costs should ultimately be recoverable through rates for water service.

EMPLOYEES

As of December 31, 1997, the Company had a total of 142 employees in New Jersey, and Tidewater had a total of 24 employees in Delaware. No employees are represented by a union. Management considers its relations with its employees to be satisfactory. Wages and benefits are reviewed annually and are considered competitive within the industry.

EXECUTIVE OFFICERS OF MIDDLESEX WATER COMPANY

Walter J. Brady - age 56; Vice President-Administration; term expires May 1998. Mr. Brady, who joined the Company in 1962, was elected Assistant Secretary-Assistant Treasurer in 1979, Assistant Vice President in 1982, Vice President-Human Resources in 1987, and Vice President-Administration in 1989. He serves as Plan Administrator of the Pension Plan. He is a Director of Tidewater Utilities, Inc., White Marsh Environmental Systems, Inc., Pinelands Water Company, Pinelands Wastewater Company and Utility Service Affiliates, Inc.

A. Bruce O'Connor - age 39; Vice President and Controller; term expires May 1998. 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 assumed the designated title of Vice President and Controller and Chief Financial Officer in May 1996. He is responsible for financial reporting, customer service, rate cases, cash management and financings. He was formerly employed by Deloitte & Touche LLP, a certified public accounting firm from 1984 to 1990. He is Treasurer of Tidewater Utilities, Inc., White Marsh Environmental Systems, Inc., Public Water Supply Company, Inc. and Utility Service Affiliates, Inc. and Vice President and Director of Pinelands Water Company and Pinelands Wastewater Company.

Marion F. Reynolds - age 58; Vice President, Secretary and Treasurer; term expires May 1998. Ms. Reynolds, who had been Secretary-Treasurer since 1987 was elected Vice President, Secretary and Treasurer in 1993. Prior to her election she had been employed by Public Service Electric and Gas Company, Newark, New Jersey since 1958, and was elected Assistant Corporate Secretary in 1976. She is Secretary of Tidewater Utilities, Inc., and Secretary/Treasurer of Pinelands Water Company and Pinelands Wastewater Company and a Director of Utility Service Affiliates, Inc.

Richard A. Russo - age 52; Executive Vice President; term expires May 1998. Mr. Russo, who had been Vice President-Operations since 1989 was elected Executive Vice President in 1995 and is responsible for engineering, water production, water treatment and distribution maintenance.

He was formerly employed by Trenton Water Works as General Superintendent and Chief Engineer since 1979. He is President and Director of Tidewater Utilities, Inc., White Marsh Environmental Systems, Inc., Public Water Supply Company, Inc., Pinelands Water Company and Pinelands Wastewater Company. He is also Executive Vice President and Director of Utility Service Affiliates, Inc.

Dennis G. Sullivan - age 56; Vice President and General Counsel, Assistant Secretary-Assistant Treasurer; term expires May 1998. Mr. Sullivan was hired in 1984 as Corporate Attorney, responsible for general corporate internal legal matters. He was elected Assistant Secretary-Assistant Treasurer in 1988 and Vice President and General Counsel in 1990. He was employed in a private law practice from 1981 to 1984 as a staff attorney. He is Assistant Secretary and Assistant Treasurer and a Director of Tidewater Utilities, Inc., Vice President, Secretary and Director of White Marsh Environmental Systems, Inc. and Public Water Supply Company Inc., a Director of Pinelands Water Company and Pinelands Wastewater Company and a Director and Secretary of Utility Service Affiliates, Inc.

J. Richard Tompkins - age 59; Chairman of the Board and President; term expires May 1998. Mr. Tompkins was elected President of the Company in 1981 and was elected Chairman of the Board in 1990. In 1979 he was employed by Associated Utility Services, an independent utility consulting firm in New Jersey, as Vice President. From 1962 to 1979 he was employed by Buck, Seifert & Jost, Incorporated, consulting engineers in New Jersey and was appointed Vice President in 1973. He is Chairman and Director of Tidewater Utilities, Inc., White Marsh Environmental Systems, Inc., Pinelands Water Company and Pinelands Wastewater Company; Director of Public Water Supply Company, Inc. and Director and President of Utility Service Affiliates, Inc. He is also a Director of New Jersey Utilities Association and Raritan Bay Healthcare Foundation.

Ronald F. Williams - age 49; Vice President-Operations; term expires May 1998. Mr. Williams was hired in March 1995 as Assistant Vice President-Operations, responsible for the Company's Engineering and Distribution Departments. He was elected Vice President-Operations in October 1995. He was formerly employed with the Garden State Water Company as President and Chief Executive Officer since 1991.

ITEM 2. PROPERTIES

The water utility plant of the Company's systems consists of source of supply, pumping, water treatment, transmission and distribution and general facilities.

MIDDLESEX SYSTEM:

Middlesex System's principal source of supply is the D&R Canal owned by the State of New Jersey and operated as a water resource by the NJWSA.

Water is withdrawn from the D&R Canal at New Brunswick, New Jersey through the Company's intake and pumping station located on State-owned land bordering the Canal. It is transported through a 54-inch supply main for treatment and distribution at the Company's CJO Plant, which has been in service since 1969. Facilities at the CJO Plant consist of source of supply, pumping, water treatment, transmission, storage, laboratory and general facilities. The Company monitors water quality at

the CJO Plant, at each well field and throughout the distribution system to determine that federal and state water quality standards are met.

The design capacity of the intake and pumping station in New Brunswick, New Jersey, and the raw water supply main located there is 80 mgd. The four electric motor-driven vertical turbine pumps presently installed have an aggregate design capacity of 65 mgd. The station is designed to permit its pumping capacity to be increased to 80 mgd by the installation of additional pumping units. Associated facilities are the 4,901 feet of 54-inch reinforced concrete water main connecting the intake and pumping station with the CJO Plant, 23,200 feet of 48-inch reinforced concrete transmission main connecting the CJO Plant to the Company's distribution pipe network and related storage pumping, control, laboratory and other facilities. The Company also has a 58,600 foot transmission main, a long-term lease agreement with the City of Perth Amboy for the use of a 38,800 foot transmission main, and a long term non-exclusive "wheeling agreement" with the East Brunswick system, all used to transport water to several of the Company's contract customers.

The CJO Plant includes chemical storage and chemical feed equipment, dual-rapid mixing basins, four reinforced concrete mechanical flocculation compartments, four underground reinforced concrete settling basins, eight rapid filters containing gravel, sand and anthracite for water treatment and a steel wash-water tank. The firm design capacity of the CJO Plant is 30 mgd (45 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 65 mgd. The station was constructed so that an additional pumping unit can be installed without structural change. The design capacity of the CJO Plant is also being significantly modified. In addition to the main pumping station at the CJO Plant, there is a 15 mgd auxiliary pumping station located in a separate building. It has a dedicated substation and emergency power supply provided by a diesel-driven generator. It pumps from the 10 mg reservoir directly into the distribution system.

In November, 1997, construction began on the upgrade, expansion and addition of facilities at the CJO Plant and related water intake station, in New Brunswick, New Jersey. At the CJO Plant, new facilities include the installation of new flash mixers and new chemical storage and feed facilities. The existing conventional sedimentation basins are being replaced by high-rate upflow clarifiers that are intended more effectively to remove turbidity. The chlorine application point is being relocated from preclarification to postclarification. The existing sedimentation basins are to be used for chlorine contact basins. Four additional filters are being added to the CJO Plant, a new laboratory is being constructed, and a computerized Supervisory Control and Data Acquisition (SCADA) system is being added to monitor and control the CJO Plant and various other facilities. Upgrades are also being made to the heating, ventilating, air conditioning and the electrical system at the CJO Plant.

The primary purpose of the Project is to upgrade the CJO Plant to meet the new and anticipated regulatory changes concerning water quality, as well as to increase capacity to meet peak-day demands. The firm capacity of the CJO Plant is being increased from about 30 mgd to 45 mgd (firm capacity is defined as the capacity when the largest unit is out of service).

The Project also involves changes to the raw water pump station which delivers water from the D&R Canal to the CJO Plant, a distance of about one mile. The station capacity is being

increased by replacing one existing pump with a larger pump. The firm capacity of the raw water pump station is being increased from about 35 mgd to 45 mgd. Functional completion of the Project (ability to produce water) is scheduled for June 1, 1999, with final completion set for October 1, 1999. The total cost of the Project, including design and engineering, is approximately \$34 million.

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

The Company owns the properties in New Jersey on which Middlesex System's 32 wells are located. The Company also owns its two-building headquarters complex at 1500 Ronson Road, Iselin, New Jersey, consisting of a 27,000 square foot, two-story office building and a 16,500 square foot maintenance facility.

PINELANDS SYSTEM:

Pinelands Water owns the well site properties which are located in Southampton Township, New Jersey. Pinelands Wastewater owns a 12 acre site on which its .5 mgd capacity tertiary plant is located. Pinelands Water storage facility is a 1.2 mg standpipe.

TIDEWATER SYSTEM:

Tidewater's storage facilities include 21 ground level storage tanks with the following capacities; 11 - 30,000 gallons, 5 - 25,000 gallons, 3 - 120,000 gallons, 1 - 135,000 gallons and 1 - 82,000 gallons. Public's facilities include 1 ground level storage tank with a capacity of 80,000 gallons.

The Company's Delaware operations are managed from Tidewater's leased offices in Odessa, Delaware and from Public's leased offices in Millsboro, Delaware. Tidewater's office property, located on property owned by White Marsh Environmental Systems, Inc., a wholly owned subsidiary of Tidewater, consists of a 1,600 square foot building situated on a one (1) acre lot with ample room for expansion; the area is commercially zoned.

ITEM 3. LEGAL PROCEEDINGS

A local entity and its owner have filed a negligence claim against the Company, for which the Company is insured, with a claim for punitive damages which may not be insured. Their action alleges financial losses arising out of improper water pressure and service. An amendment to the claim alleges damages resulting from some poor quality water. Other parties who dealt with the claimants have joined the matter. Without taking a position on the negligence claim, the Company does not believe that the claim for punitive damages will prevail. While the outcome of this case is not presently determinable, management believes that the final resolution will not have a significant effect on the Company's financial position or results of operations or cash flows.

A fire at a warehouse within the Company's service territory has resulted in multiple party claims for unspecified amounts. This has led the warehouse operator and certain tenants to assert claims against the Company for alleged insufficient water pressure and supply. The Company believes it has substantial defenses to the claims.

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 PRICE RANGE OF COMMON STOCK

The following table shows the range of closing prices for the Common Stock on the NASDAQ Stock Market for the calendar quarter indicated.

1997 ----	High ----	Low ---	Dividend -----
First Quarter	\$18	\$17	\$0.28
Second Quarter	17 7/8	16 3/8	0.28
Third Quarter	19 1/4	16 3/8	0.28
Fourth Quarter	22 1/2	18	0.28 1/2

1996 ----	High ----	Low ---	Dividend -----
First Quarter	\$19 1/4	\$17 1/4	\$0.27 1/2
Second Quarter	17 1/2	15 1/2	0.27 1/2
Third Quarter	18	16	0.27 1/2
Fourth Quarter	18 1/4	16 3/4	0.28

APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS AS OF DECEMBER 31, 1997

Title of Class -----	Number of Record Holders -----
Common Stock, No Par Value	2,312
Cumulative Preferred Stock, No Par Value:	
\$7 Series	17
\$4.75 Series	1
Cumulative Convertible Preferred Stock, No Par Value:	
\$7 Series	4
\$8 Series	5

DIVIDENDS

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.

The Common Stock of the Company is traded on the NASDAQ Stock Market under the symbol MSEX.

ITEM 6. SELECTED FINANCIAL DATA

This information is incorporated herein by reference to the attached Exhibit 13, 1997 Annual Report to Shareholders, Page 23.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This information is incorporated herein by reference to the attached Exhibit 13, 1997 Annual Report to Shareholders, Pages 10 and 11.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and Independent Auditors' Report are incorporated herein by reference to the attached Exhibit 13, 1997 Annual Report to Shareholders, Pages 12 through 22. The supplementary data is included as indicated under Part IV, Item 14.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information with respect to Directors of Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 1998 Annual Meeting of Stockholders and is incorporated herein by reference.

Information regarding the Executive Officers of Middlesex Water Company is included under Item 1 in Part 1 of this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

This Information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 1998 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 1998 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 1998 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A) 1. FINANCIAL STATEMENTS

The following information is incorporated herein by reference to the attached Exhibit 13, 1997, Annual Report to Shareholders, pages 10 through 23:

Management's Discussion and Analysis, Pages 10-11

Consolidated Balance Sheets at December 31, 1997, and 1996, Pages 12-13

Consolidated Statements of Income for each of the three years in the period ended December 31, 1997, Page 14

Consolidated Statements of Capital Stock and Long-term Debt at December 31, 1997, and 1996, Page 15

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 1997, Page 16

Consolidated Statements of Retained Earnings for each of the three years in the period ended December 31, 1997, Page 17

Notes to Consolidated Financial Statements, Pages 17-22

Independent Auditors' Report, Page 22

(A) 2. FINANCIAL STATEMENT SCHEDULES

All Schedules are omitted because of the absence of the conditions under which they are required or because the required information is shown in the financial statements or notes thereto.

(A) 3. EXHIBITS

See Exhibit listing on Pages 15-17.

(B) REPORTS ON FORM 8-K
None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Chairman of the Board and President and Director	/s/J. Richard Tompkins/ ----- J. Richard Tompkins	3/27/98 ----- Date
Executive Vice President and Director	/s/Richard A. Russo/ ----- Richard A. Russo	3/27/98 ----- Date
Vice President and Controller Chief Financial Officer	/s/A. Bruce O'Connor/ ----- A. Bruce O'Connor	3/27/98 ----- Date
Director	/s/John C. Cutting/ ----- John C. Cutting	3/27/98 ----- Date
Director	/s/Ernest C. Gere/ ----- Ernest C. Gere	3/27/98 ----- Date
Director	/s/John P. Mulkerin/ ----- John P. Mulkerin	3/27/98 ----- Date
Director	/s/Stephen H. Mundy/ ----- Stephen H. Mundy	3/27/98 ----- Date
Director	/s/Philip H. Reardon/ ----- Philip H. Reardon	3/27/98 ----- Date
Director	/s/William E. Scott/ ----- William E. Scott	3/27/98 ----- Date
Director	/s/Jeffries Shein/ ----- Jeffries Shein	3/27/98 ----- Date

EXHIBIT INDEX

Exhibits designated with an asterisk (*) are filed herewith. The exhibits not so designated have heretofore been filed with the Commission and are incorporated herein by reference to the documents indicated in the previous filing columns following the description of such exhibits.

Exhibit No. -----	Document Description -----	Previous Registration No. -----	Filing's Exhibit No. -----
*3.1	Certificate of Incorporation of the Company, as amended.		
3.2	Bylaws of the Company, as amended.	33-54922	3.2
4.1	Form of Common Stock Certificate.	2-55058	2(a)
4.2	Registration Statement, Form S-3, under Securities Act of 1933 filed February 3, 1987, relating to the Dividend Reinvestment and Common Stock Purchase Plan.	33-11717	
4.3	Post Effective Amendments No. 3 and 6, Form S-3, under Securities Act of 1933 filed May 28, 1993, relating to the Dividend Reinvestment and Common Stock Purchase Plan.	33-11717	
10.1	Copy of Purchased Water Agreement between the Company and Elizabethtown Water Company, filed as Exhibit No. 10.1 of 1996 Form 10K.		
10.2	Copy of Mortgage, dated April 1, 1927, between the Company and Union County Trust Company, as Trustee, as supplemented by Supplemental Indentures, dated as of October 1, 1939 and April 1, 1949.	2-15795	4(a)-4(f)
10.3	Copy of Supplemental Indentures, dated as of July 1, 1964 and June 15, 1991, between the Company and Union County Trust Company, as Trustee.	33-54922	10.4 - 10.9 and 10.16
10.4	Copy of Trust Indenture, dated as of June 15, 1991, between the New Jersey Economic Development Authority and Midlantic National Bank, as Trustee.	33-54922	10.17
10.5	Copy of Supply Agreement, dated as of November 17, 1986, between the Company and the Old Bridge Municipal Utilities Authority.	33-31476	10.12

EXHIBIT INDEX

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
-----	-----	-----	-----
10.6	Copy of Supply Agreement, dated as of July 14, 1987, between the Company and the Marlboro Township Municipal Utilities Authority, as amended.	33-3147	10.13
10.7	Copy of Supply Agreement, dated as of February 11, 1988, with modifications dated February 25, 1992, and April 20, 1994, between the Company and the Borough of Sayreville filed as Exhibit No. 10.11 of 1994 First Quarter Form 10-Q.		
10.8	Copy of Water Purchase Contract and Supplemental Agreement, dated as of May 12, 1993, between the Company and the New Jersey Water Supply Authority filed as Exhibit No. 10.12 of 1993 Form 10-K.		
10.9	Copy of Treating and Pumping Agreement, dated April 9, 1984, between the Company and the Township of East Brunswick.	33-31476	10.17
10.10	Copy of Supply Agreement, dated June 4, 1990, between the Company and Edison Township.	33-54922	10.24
10.11	Copy of Supply Agreement, between the Company and the Borough of Highland Park, filed as Exhibit No. 10.15 of 1996 Form 10K.		
10.12	Copy of Pipeline Lease Agreement, dated as of January 9, 1987, between the Company and the City of Perth Amboy.	33-31476	10.20
10.13	Copy of Supplemental Executive Retirement Plan, effective January 1, 1984, as amended.	33-31476	10.21
10.14	Copy of 1989 Restricted Stock Plan, filed as Appendix B to the Company's Definitive Proxy Statement, dated and filed April 25, 1997.	33-31476	10.22
10.15	Amendment to Supplemental Executive Retirement Plan, dated May 23, 1990, filed as Exhibit No. 10.23 of 1991 Form 10-K.		
10.16	Copy of Transmission Agreement, dated October 16, 1992, between the Company and the Township of East Brunswick.	33-54922	10.23

EXHIBIT INDEX

Exhibit No. -----	Document Description -----	Previous Registration No. -----	Filing's Exhibit No. -----
10.17	Copy of Agreement and Plan of Merger, dated January 7, 1992, between the Company, Midwater Utilities, Inc. and Tidewater Utilities, Inc.	33-54922	10.29
10.18	Copy of Supplemental Indentures, dated September 1, 1993, (Series S & T) and January 1, 1994, (Series U & V), between the Company and United Counties Trust Company, as Trustee, filed as Exhibit No. 10.22 of 1993 Form 10-K.		
10.19	Copy of Trust Indentures, dated September 1, 1993, (Series S & T) and January 1, 1994, (Series V), between the New Jersey Economic Development Authority and First Fidelity Bank (Series S & T), as Trustee, and Midlantic National Bank (Series V), as Trustee, filed as Exhibit No. 10.23 of 1993 Form 10-K.		
10.20	Copy of Supply Agreement between the Company and the City of South Amboy, filed as Exhibit No. 10.24 of 1996 Form 10K.		
*13	Annual Report to Shareholders for the year ended December 31, 1997, pages 10 through 23.		
*23	Independent Auditors' Consent.		
*27	Financial Data Schedule		

RESTATED CERTIFICATE OF INCORPORATION
OF
MIDDLESEX WATER COMPANY

Approved by the Board of Directors February 27, 1997

MIDDLESEX WATER COMPANY (hereinafter referred to as "the Company" or "the Corporation"), a corporation of New Jersey resulting from Articles of Agreement and Consolidation dated June 23, 1897, between the MIDLAND WATER COMPANY, a corporation organized under "An act concerning corporations", approved April 7, 1875, as supplemented and amended, its certificate of incorporation having been amended under "An act concerning corporations, Revision of 1896", and MIDDLESEX WATER COMPANY, a corporation organized under "An act for the construction, maintenance and operation of water works for the purpose of supplying cited, towns and villages of this state with water", approved April 21, 1876, as amended and supplemented; and also resulting from an agreement of merger and consolidation dated September 10, 1907, between MIDDLESEX WATER COMPANY and CONSUMERS AQUEDUCT COMPANY, a corporation organized under the laws of the State of New Jersey; and having filed, on December 21, 1925, a Certificate of Desire to come under Chapter CXCIII of the Laws of 1876, does hereby certify that the certificate of incorporation forming the Corporation, as amended and supplemented by all certificates filed pursuant to law, is restated as set forth below:

ARTICLE 1. The name of the corporation is MIDDLESEX WATER COMPANY. The period of existence of MIDDLESEX WATER COMPANY shall be perpetual.

ARTICLE 2. The address of the Company's current registered office is 1500 Ronson Road, Iselin, Township of Woodbridge, New Jersey 08830-3049, and the name of the Company's current agent therein upon whom process against the said Company may be served is Marion F. Reynolds.

ARTICLE 3. The purpose of the Company is to construct, maintain and operate waterworks, wells, reservoirs, mains, pipes, and appurtenances; to obtain, impound and supply water for public and private use; to acquire, hold, lease, mortgage, exchange, sell, convey and dispose of real and personal property and interests therein, including the securities of any water company or other corporation; and to exercise all the rights and powers which the Company may lawfully possess; including such rights and powers as were set forth in statutes under which the Company was incorporated as such statutes have been amended, extended and superseded from time to time.

ARTICLE 4. The management of the affairs of the Company shall be vested in a Board of Directors, to be selected by and from the stockholders, consisting of not less than five nor more than twelve directors, the exact number of directors to be determined from time to time by resolution adopted by affirmative vote of a majority of the entire Board of Directors. The directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. At the 1984 annual meeting of stockholders, Class I directors shall be elected for a one-year term, Class II directors for a two-year terms and Class III directors for a three year term. At each succeeding annual meeting of stockholders beginning in 1985, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, but in no case shall a

decrease in the number of directors shorten the term of any incumbent director. A director shall hold office until the annual meeting for the year in which his or her term expires and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

(a) The term of a director elected by stockholders to fill a newly created directorship or other vacancy shall expire at the same time as the terms of the other directors of the class for which the new directorship is created or in which the vacancy occurred. Any vacancy on the Board of Directors that results from an increase in the number of directors and any other vacancy occurring in the Board of Directors may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. Any director so elected by the Board of Directors shall, without regard to the class in which such vacancy occurred, hold office until the next succeeding annual meeting of stockholders and until his successor shall be elected and shall qualify.

(b) Notwithstanding the foregoing, whenever the holders of any one or more classes or series of preferred stock or preference stock, issued by the Company shall have the right, pursuant to Article 7A (f) or Article 7E (e), respectively, voting separately by class or series, to elect additional directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the applicable terms of the Certificate of Incorporation, as amended, and such directors so elected shall not be divided into classes pursuant to this ARTICLE 4 unless expressly provided by such terms.

(c) The directors shall choose by a majority vote the President and one or more Vice Presidents, the Secretary and one or more Assistant Secretaries, the Treasurer and one or more Assistant Treasurers, all of whom shall be chosen annually and shall hold office for one year and until their successors are chosen and qualified. The directors shall also appoint and remove from time to time such other officers and agents as they shall think proper. All of the provisions of this article are subject to alteration from time to time by the by-laws.

(d) The power to make and alter by-laws of the Company shall be in the Board of Directors. By-laws made by the Board of Directors may be altered or repealed by the affirmative vote of the holders of two-thirds (2/3) or more of the outstanding shares of capital stock of the Company having voting powers.

ARTICLE 5. The number of directors constituting the current Board of Directors of the Company is 9. The names and addresses of the directors constituting its current Board of Directors as follows:

John C. Cutting	1610 Northstream Parkway Point Pleasant, New Jersey
Ernest C. Gere	47 Troon Court Pawleys Island, South Carolina
John P. Mulkerin	6 Oak Grove Lane Edison, New Jersey

Stephen H. Mundy	1521 Duke of Windsor Road Virginia Beach, Virginia
Philip H. Reardon	6 Knobb Hill Byfield, Massachusetts
Richard A. Russo	1500 Ronson Road Iselin, New Jersey
Carolina M. Schneider	1109-A Troy Towers Bloomfield, New Jersey
William E. Scott	29 Laurel Place Upper Montclair, New Jersey
Jeffries Shein	30 Huntley Road Holmdel, New Jersey
J. Richard Tompkins	1500 Ronson Road Iselin, New Jersey

ARTICLE 6. The directors shall be chosen at the annual meetings of the stockholders, to be held at such time and place as shall be provided by the by-laws of the Company.

ARTICLE 7A. The total authorized capital stock of the Company is 6,169,418 shares, divided into 6,000,000 shares of common stock without nominal or par value, 69,418 shares of preferred stock without nominal or par value (out of 100,000 shares of preferred stock originally authorized) and 100,000 shares of preference stock without nominal or par value. Certain of the originally authorized 100,000 shares of preferred stock without nominal or par value have been redeemed and canceled by the Company from time to time without the ability to reissue such shares. From time to time the capital stock of the Company may be issued and sold in such amounts, within such authorized limits, and in such proportions and for such considerations as may be fixed by the Board of Directors of the Company, and as may be permitted by law, and all capital stock so issued and sold shall be deemed fully paid and nonassessable and the holder of any such shares shall not be liable to the Company or its creditors in respect thereof.

(a) The preferred stock shall be issuable from time to time in one or more series with such designation, description and terms thereof, in the manner and to the extent permitted by the laws of the State of New Jersey, as may be determined and fixed by the Board of Directors at the time of the creation and establishment of any such series of preferred stock. All of the shares of preferred stock of each series shall rank pari passu with all of the shares of preferred stock of each other series, and shall have the same rights and privileges, preferences and voting powers, and shall be subject to the same restriction or qualifications thereof, without distinction between the shares of the respective series except only as to variations in (i) the rates of dividend payable thereon, (ii) the terms on which shares of the respective series may be redeemed, (iii) the amount which shall be paid to the holders of the shares of the respective series in case of dissolution or any distribution of assets, (iv) the terms or amount of any sinking fund provided for the purchase or redemption thereof, (v) the terms upon which the holders of the shares of the respective series may convert the same into stock of any other

class or classes or of any one or more series of the same class or of another class or classes, and (vi) in such other respects, if any, as may at the time be permitted by the laws of the State of New Jersey.

(b) The holders of the preferred stock irrespective of the series thereof shall be entitled to receive, and the Company shall be obligated to pay, when, as declared by the Board of Directors of the Company, cumulative dividends at such respective rates as may be fixed by the Board of Directors of the Company at the time of the creation and establishment of the respective series, and no more, payable quarterly on the first days of February, May, August and November of each year. Said dividends shall accumulate from the date of the original issue of each share of such preferred stock (except for shares of the \$7 Series Cumulative Preferred Stock described in ARTICLE 7B on which dividends shall accumulate from the date of their creation). Such dividends shall be payable before any dividends shall be paid upon or set apart for the common stock, and shall be cumulative, so that if at any time dividends at the rate fixed by the Board of Directors and designated by the certificates of shares of the series of which it is a part shall not be paid thereon or set apart therefor, the deficiency shall be full paid or set apart for payment before any dividends shall be paid upon or set apart for the common stock. Dividends shall not be paid exclusively upon any one or more series of preferred stock but dividends shall be paid ratably upon all outstanding preferred stock in the proportions that the annual dividend requirements of each series bears to the total annual dividend requirements of all outstanding preferred stock. Whenever all cumulative unpaid dividends on the preferred stock, including the current quarterly dividend, shall have been fully paid or set apart for payment, the Board of Directors may declare and pay dividends on the common stock.

(c) The preferred stock of one or more series may be subject to redemption, in which case such preferred stock may be redeemed and retired in whole, or in part, from time to time at any time on any quarterly dividend date at the option of the Company at such redemption prices as may be fixed by the Board of Directors at the time of the creation and establishment thereof; provided, however, that all stock of any particular series shall be redeemable at the same redemption price. The time, place and manner of such redemption shall be in the discretion of the Board of Directors of the Company. Preferred stock which shall have been redeemed shall not be reissued, and the Company shall from time to time cause all such shares to be retired in the manner provided by law. If less than all of the outstanding shares of preferred stock subject to redemption are to be called for redemption, redemption may be less than all of the outstanding shares of any one or more series, in the discretion of the Board of Directors, and if less than all outstanding shares of any series are to be redeemed, the shares to be redeemed shall be determined in such manner as may be prescribed by the Board of Directors. Redemption shall be made, however, only on at least thirty (30) days prior written notice to the holders of the stock to be redeemed, which notice shall be sufficient if contained in a post-paid envelope addressed and mailed to the holder at his address of record as shown by the books of the Company, and the time of mailing such notice shall be deemed to be the time of delivery thereof. From and after the date fixed in any such notice as the date of redemption (unless default shall be made by the Company in providing monies for the payment of the redemption price, pursuant to such notice) all dividends on

the preferred stock thereby called for redemption shall cease to accrue and all rights of the holders thereof as stockholders of the Company, except the right to receive the redemption price upon surrender of the certificates of stock by such holders, shall cease and determine.

(d) The holders of each series of preferred stock shall be entitled to receive payment out of the assets of the Company whether from capital or from earnings, in an amount per share determined and fixed by the Board of Directors at the time of the creation and establishment of such series of preferred stock in the event of (i) a voluntary liquidation, dissolution or winding up of the Company or a voluntary sale of all or substantially all of the assets of the Company or upon any voluntary distribution of its capital or (ii) an involuntary liquidation, dissolution or winding up of the Company or an involuntary sale of all or substantially all of the assets of the Company, or upon any involuntary distribution of its capital, before any payment shall be made or any assets distributed to the holders of common stock. If upon such liquidation, dissolution, winding up, sale of assets or distribution of the capital of the Company, the assets or distribution of the capital of the Company, the assets thus distributed among the holders of the preferred stock shall be insufficient to permit the payment to such holders of the full preferential amounts aforesaid, then the entire assets of the Company to be distributed shall be distributed ratably among the holders of the preferred stock in proportion to the full preferential amounts, if any, to which there are respectively entitled as aforesaid. After payment or distribution to the holders of preferred stock as aforesaid and after payment or distribution of remaining assets, if any, ratably among the holders of preference stock in proportion to the full preferential amounts, if any, to which such holders are entitled pursuant to the provisions of Article 7E (c) below, the holders of common stock shall be entitled to receive, ratably, any remaining assets of the Company. A consolidation or merger of the Company with any other corporation or corporations shall not be deemed to be a liquidation, dissolution, winding up, sale or distribution of capital, within the meaning of this clause, but no such consolidation or merger shall in any way impair the rights and preferences of the preferred stock.

(e) So long as any shares of the preferred stock of any series are outstanding, the Company shall not, without the consent (given by vote at a meeting called for that purpose) of the holders of a majority of the total number of shares of the preferred stock of all series then outstanding, voting as a class, issue, sell or otherwise dispose of any additional series of preferred stock or of any other class ranking prior to or on a parity with the preferred stock as to dividends or distributions, unless (i) the stated value of common stock and surplus earnings on the books of the Company shall be at least two (2) times the involuntary liquidation preferences of the entire amount of preferred stock of the Company already issued and then outstanding, and the preferred stock then proposed to be issued; and (ii) the earnings of the Company available for the payment of interest determined in accordance with generally accepted accounting practices shall have been for a period of twelve (12) consecutive calendar months within the fifteen (15) calendar months immediately preceding the issuance of such additional stock, at least one and one-half (1-1/2) times the annual interest requirements on all outstanding obligations for the payment of money, secured

and unsecured, of the Company maturing more than twelve (12) months after the issuance of the shares proposed to be issued plus annual dividend requirements upon all outstanding preferred stock of the Company and all other classes of stock ranking prior to or on a parity with the preferred stock as to dividends and distributions, including the shares proposed to be issued, minus any interest on any such obligations and dividends on any such outstanding stock to be retired or refunded out of the proceeds of the shares proposed to be issued.

(f) Except as otherwise required by law and subject to the provisions of subparagraph (e) hereof, no holder of preferred stock shall have any right to vote for the election of directors or for any other purpose, anything in ARTICLE 4 hereof to the contrary notwithstanding; provided, however, that if and whenever dividends on the preferred stock shall be in arrears and such arrears shall aggregate an amount at least equal to four (4) quarterly dividends, which need not be consecutive, then, in such event, the holders of the outstanding preferred stock of all series shall be entitled, at the next ensuing annual meeting of stockholders, voting as a class, to elect two members (herein called 'preferred stock directors') of the Board of Directors, which preferred stock directors shall be in addition to the directors holding office pursuant to ARTICLE 4 hereof; provided, however, that if and whenever any such fourth quarterly dividend arrearage shall occur, the Company shall, within fifteen (15) days after the receipt by the Company of written request of not less than twenty-five percent (25%) of the holders of the outstanding preferred stock, as a class and irrespective of series, cause to be called a special meeting of the holders of outstanding preferred stock of all series, to be held on the earliest practicable date, to elect the preferred stock directors, as aforesaid. For purposes of any such election such holder or holders of preferred stock as are present in person or by proxy shall constitute a quorum, irrespective of whether any holders of any other capital stock of the Company are present at such meeting. Any vacancy in the position of a preferred stock director, which, but for this provision, could be filled by such person as the Board of Directors might designate, shall be filled by the Board of Directors from among such persons as the remaining preferred stock director shall designate, and such successor shall hold office for the unexpired term of the prior incumbent and until his successor shall be duly chosen and shall qualify. Such right of the holders of the outstanding preferred stock to elect two members of the Board of Directors shall continue at each annual meeting until such time as all arrears of dividends on the preferred stock shall have been paid and dividends thereon for the current quarterly period shall have been paid or declared and provided for, in which event such right of the holders of preferred stock to elect preferred stock directors as provided in this subparagraph (f) shall cease at the next ensuing annual meeting of stockholders, subject always to the same provisions for the vesting of such right in the case of any such future arrearages in dividends.

In any case in which the holders of preferred stock shall be entitled to vote pursuant to the provisions of this subparagraph (f) or pursuant to law, each holder of preferred stock shall be entitled to one vote for each share thereof held.

ARTICLE 7B. A first series of the Company's preferred stock, without nominal or par value, consisting of 2,500 shares, designated as "\$7 Series Cumulative Preferred Stock" was created

and established and each of the outstanding 2,500 shares of 7% Preferred Stock, \$100 par value, was changed into and thereby became a share of such first series.

The preferences, rights, qualifications, limitations and restricting of the shares of the \$7 Series Cumulative Preferred Stock, in the respects in which the shares of such series vary from shares of other series of the preferred stock, are and shall be as follows:

(a) The dividend rate for the \$7 Series Cumulative Preferred Stock shall be \$7 per share per annum;

(b) The shares of the \$7 Series Cumulative Preferred Stock shall not be subject to redemption;

(c) The preferential amounts to which holders of shares of the \$7 Series Cumulative Preferred Stock shall be entitled upon any liquidation, dissolution or winding up of the Company, whether voluntary or otherwise, or upon any distribution of the capital of the Company, shall be \$100 per share, plus accumulated and unpaid dividends thereon;

(d) There shall not be any sinking fund providing for the purchase or redemption of shares of the \$7 Series Cumulative Preferred Stock; and

(e) The shares of the \$7 Series Cumulative Preferred Stock shall not be convertible into stock of any other class or classes or any one or more series of the same class or of another class.

ARTICLE 7C. The Company created and established a second series of its preferred stock, without nominal or par value, in an amount of ten thousand (10,000) shares, which is designated as "\$4.75 Series Cumulative Preferred Stock."

The preferences, rights, qualifications, limitations and restrictions of the shares of the \$4.75 Series Cumulative Preferred Stock, in the respects in which the shares of such series vary from shares of other series of the Company's preferred stock, are and shall be as follows:

(a) The dividend rate for the \$4.75 Series Cumulative Preferred Stock shall be \$4.75 per share per annum;

(b) The redemption price for the \$4.75 Series Cumulative Preferred Stock shall be \$104.75 per share through February 1, 1968, thereafter \$104 per share through February 1, 1973; thereafter \$103, per share through February 1, 1978; thereafter \$102 per share through February 1, 1983; thereafter \$102 per share through February 1, 1988; and thereafter, \$100 per share, plus accumulated and unpaid dividends thereon in any case; provided, however, that prior to February 1, 1968, none of the shares of such series shall be redeemed, directly or indirectly, out of the proceeds of, or in anticipation of, any refunding operation involving the incurring of any indebtedness or the sale of any class of stock ranking senior to the common stock of the Company, computed by the Company in accordance with generally accepted accounting practice, of less than 4-3/4% per annum;

(c) The preferential amounts to which holders of shares of the \$4.75 Series Cumulative Preferred Stock shall be entitled upon any liquidation, dissolution, or winding up of the Company shall be:

(i) Upon any voluntary liquidation, dissolution or winding up of the Company, the redemption price in effect at that time thereof; or

(ii) upon any involuntary liquidation, dissolution or winding up of the Company, \$100 per share plus accumulated and unpaid dividends thereon;

(d) There shall not be any sinking fund provided for the purchase or redemption of shares of the \$4.75 Series Cumulative Preferred Stock; and

(e) The shares of the \$4.75 Series Cumulative Preferred Stock shall not be convertible into stock of any other class or classes of any one or more series of the same class or of another class.

ARTICLE 7D. The Company created and established a fifth series of its preferred stock, without nominal or par value, in an original amount of seventeen thousand (17,000) shares, which is designated as "\$7 Cumulative and Convertible Preferred Stock." The amount of such shares authorized and outstanding from time to time may be reduced by periodic redemption and cancellation of such shares by the Company, and the conversion of such shares at the election of the holder thereof into the common stock of the Company as expressly permitted under this Article 7D, without the ability to reissue such shares.

The preferences, rights, qualification, limitations and restrictions of the shares of the \$7 Cumulative and Convertible Preferred Stock, in the respects in which the shares of such series vary from shares of other series of the Company's preferred stock, are and shall be as follows:

(a) The dividend rate for the \$7 Cumulative and Convertible Preferred Stock shall be \$7 per share per annum;

(b) the redemption price for any share of \$7 Cumulative and Convertible Preferred stock shall be the Closing Price (as defined below in this article), on the day the Company's Board of Directors authorizes such redemption, of three shares of the Company's common stock plus any accumulated and unpaid dividends thereon; provided, that prior to five years from the date of issuance, none of the shares of such series shall be redeemed, directly or indirectly, out of the proceeds of, or in anticipation of, any refunding operation involving the incurring of any indebtedness or the sale of any class of stock ranking senior to the common stock of the Company which represents a cost of money to the Company, computed by the Company in accordance with generally accepted accounting practice, of less than \$7 per annum; and provided, further, that, notwithstanding any thing to the contrary herein, the Board of Directors shall not redeem in any calendar year more than 10% of the \$7 Cumulative and Convertible Preferred Stock issued and outstanding on January 1 of such year.

(c) The preferential amounts to which holders of shares of the \$7 Cumulative and Convertible Preferred Stock shall be entitled upon any liquidation, dissolution, or winding up of the Company shall be:

(i) Upon any voluntary liquidation, dissolution or winding up of the Company, the redemption price in effect at the time thereof; or

(ii) Upon any involuntary liquidation, dissolution or winding up of the Company, \$100 per share plus accumulated and unpaid dividends thereon.

(d) There shall not be any sinking fund providing for the purchase or redemption of shares of the \$7 Cumulative and Convertible Preferred Stock.

(e) Unless earlier called for redemption in accordance with the provisions hereof, each share of the \$7 Cumulative and Convertible Preferred Stock shall be convertible at the election of the holder thereof at any time after five years from the date of issuance of such share into:

(i) Shares of the Company's common stock at the Common Equivalent Rate in effect on the date of conversion (the "Conversion Date"); plus

(ii) The right to receive an amount in cash equal to all accrued and unpaid dividends on such share to and including the Conversion Date, whether or not declared, out of funds legally available therefor.

Any holder of shares of \$7 Cumulative and Convertible Preferred Stock electing to convert such shares into shares of the Company's common stock shall provide written notice to the Company of such holder's election to convert, such notice to be sufficient if contained in a postage-paid envelope addressed and mailed to the Company. The time of mailing of such notice shall be deemed to be the date of delivery thereof. The holder's notice shall also include the following:

(i) The conversion Date, which shall be not earlier than 45 days or later than 90 days from the date of delivery of such notice;

(ii) A description of the shares of \$7 Cumulative and Convertible Preferred Stock to be converted;

(iii) The name or names in which such holder wishes the Certificate or Certificates for shares of the Company's common stock to be issued; and

(iv) The holder's agreement to be responsible for the reasonable fees and expenses of the Company's transfer agent related to such issuance of common stock upon conversion.

Immediately prior to the effectiveness of a merger or consolidation of the Company that results in the conversion or exchange of the common stock into, or the right to receive, other securities or other property (whether of the Company or any other entity) (any such merger or consolidation is referred to herein as a

"Merger" or "Consolidation") each outstanding share of \$7 Cumulative and Convertible Preferred stock shall convert into:

(i) Shares of the Company's common stock at the Common Equivalent Rate in effect on the effective date of a Merger or Consolidation; plus

(ii) The right to receive an amount of cash equal to the accrued and unpaid dividends on such share of \$7 Cumulative and Convertible Preferred Stock to and including the Settlement Date (and dividends shall cease to accrue as of the Settlement Date), unless sooner redeemed.

The Common Equivalent Rate to be used to determine the number of shares of the Company's common stock to be delivered pursuant to this article shall be initially three shares of the Company's common stock for each share of \$7 Cumulative and Convertible Preferred Stock; provided, however, that such Common Equivalent Rate shall be subject to adjustment from time to time as provided below. All adjustments to the Common Equivalent Rate shall be calculated to the nearest 1/100th of a share of the Company's common stock. Such rate in effect any time is herein called the "Common Equivalent Rate."

(i) If the Company shall either:

- (1) pay a dividend or make a distribution with respect to its common stock, in either case, in shares of such common stock,
- (2) subdivide or split its outstanding shares of common stock,
- (3) combine its outstanding shares of common stock into a smaller number of shares, or
- (4) issue by reclassification of its shares of common stock any shares of common stock of the Company,

then, in any such event, the Common Equivalent Rate in effect immediately prior thereto shall be adjusted so that the holders of a share of \$7 Cumulative and Convertible Preferred Stock shall be entitled to receive on the conversion of such share, the number of shares of common stock of the Company which such holder would have owned or been entitled to receive after the happening of any of the events described above had such share of \$7 Cumulative and Convertible Preferred Stock been surrendered for conversion at the Common Equivalent Rate in effect immediately prior to such time. Such adjustment shall become effective at the opening of business of the business day next following the record date for determination of stockholders entitled to receive such stock dividend or distribution in the case of a stock dividend or distribution and shall become effective immediately after the effective date in case of a subdivision, split,

combination or reclassification; and any shares of the Company's common stock issuable in payment of a dividend shall be deemed to have been issued immediately prior to the close of business on the record date for such dividend for purposes of calculating the number of outstanding shares of the Company's common stock under clauses (ii) and (iii) below.

(ii) If the Company shall issue rights or warrants to all holders of its common stock entitling them to subscribe for or purchase shares of the Company's common stock at a price per share less than the Current Market Price per share (determined as provided below) of the common stock of the Company on the record date for the determination of stockholders entitled to receive such rights or warrants, then in each case the Common Equivalent Rate shall be adjusted by multiplying the Common Equivalent Rate in effect immediately prior thereto by a fraction, of which the numerator shall be the number of shares of the Company's common stock outstanding on the date of issuance of such rights or warrants, immediately prior to such issuance, plus the number of additional shares of its common stock offered for subscription or purchase, and of which the denominator shall be the number of shares of common stock of the Company outstanding on the date of issuance of such rights or warrants, immediately prior to such issuance, plus the number of shares which the aggregate offering price of the total number of shares so offered for subscription or purchase would purchase at such Current Market Price (determined by multiplying such total number of shares by the exercise price of such rights or warrants and dividing the product so obtained by such Current Market Price). Shares of common stock of the Company owned by the Company or by another company of which a majority of the shares entitled to vote in the election of directors are held, directly or indirectly, by the Company shall not be deemed to be outstanding for purposes of such computation. Such adjustment shall become effective at the opening of business on the business day next following the record date for the determination of stockholders entitled to receive such rights or warrants. To the extent that shares of the Company's common stock are not delivered after the expiration of such rights or warrants, the Common Equivalent Rate shall be readjusted to the Common Equivalent Rate which would then be in effect had the adjustments made upon the issuance of such rights or warrants been made upon the basis of delivery of only the number of shares of Common Stock actually delivered.

(iii) If the Company shall pay a dividend or make a distribution to all holders of its common stock of evidence of its indebtedness or other assets (including shares of capital stock of the Company but excluding any cash dividends or distributions and dividends referred to in clause (I) above), or shall distribute to all holders of its common stock rights or warrants to subscribe for or purchase securities of the Company (other than those referred to in clause (ii) above), then in each such case the Common Equivalent Rate shall be adjusted by multiplying the Common Equivalent Rate in effect immediately prior to the date of such distribution by a fraction, of which the numerator shall be the Current Market Price per share of the Company's common stock (determined pursuant to clause (v) below) on the record date mentioned below, and of which the denominator shall be such Current Market Price per share of the Company's common stock less the fair market value (as determined by the Board of Directors of the Company, whose determination shall be conclusive) as of such

record date of the portion of the assets or evidences of indebtedness so distributed, or of such subscription rights or warrants, applicable to one share of the common stock of the Company. Such adjustment shall become effective on the opening of business on the business day next following the record date for the determination of stockholders entitled to receive such distribution.

(iv) Anything in this article notwithstanding, the Company shall be entitled to make such upward adjustments in the Common Equivalent Rate, in addition to those required by this article, as the Company in its discretion shall determine to be advisable, in order that any stock dividends, subdivision of shares, distribution of rights to purchase stock or securities, or a distribution of securities convertible into or exchangeable for stock (or any transaction which would be treated as any of the foregoing transactions pursuant to Section 305 of the Internal Revenue Code of 1986, as amended) hereafter made by the Company to its stockholders shall not be taxable.

(v) As used in this article, the Current Market Price per share of the Company's common stock on any date shall be the average of the daily Closing Prices for the five consecutive Trading Dates ending on and including the date of determination of the Current Market Price (appropriately adjusted to take into account the occurrence during such five-day period of any event that results in an adjustment of the Common Equivalent Rate).

(vi) In any case in which this article shall require that an adjustment as a result of any event become effective at the opening of business on the business day next following a record date and the date fixed for conversion occurs after such record date, but before the occurrence of such event, the Company may in its sole discretion elect to defer paying to such holder any amount in cash in lieu of a fractional share of common stock of the Company, pursuant to this article.

Whenever the Common Equivalent Rate is adjusted as herein provided, the Company shall:

- (i) forthwith compute the adjusted Common Equivalent Rate in accordance with this article and prepare a certificate signed by the Chief Executive Officer, the Chairman, the President, any Vice President or the Treasurer of the Company setting forth the adjusted Common Equivalent Rate, the method of calculation thereof in reasonable detail and the facts requiring such adjustment and upon which such adjustment is based, and file such certificate forthwith with the transfer agent or agents for the \$7 Cumulative and Convertible Preferred Stock and the Company's common stock; and
- (ii) mail a notice stating that the Common Equivalent Rate has been adjusted, the facts requiring such adjustment and upon which such adjustment is based and setting forth the adjusted Common Equivalent Rate to the

holders of record of the outstanding shares of the \$7 Cumulative and Convertible Preferred Stock at or prior to the time the Company mails an interim statement to its stockholders covering the quarterly-yearly period during which the facts requiring such adjustment occurred, but in any event within 45 days of the end of such quarterly-yearly period.

No fractional shares of the Company's common stock shall be issued upon redemption or conversion of shares of the \$7 Cumulative and Convertible Preferred Stock but, in lieu of any fraction of a share of the Company's common stock which would otherwise be issuable in respect of the aggregate number of shares of the \$7 Cumulative and Convertible Preferred Stock surrendered by the same holder for redemption or conversion on any redemption or conversion date, the holders shall have the right to receive an amount in cash equal to the same fraction of the Closing Price.

The term "Closing Price" on any day shall mean the closing sale price regular way on such day or, in the case no such sale takes place on such day, the average closing bid and asked prices of the common stock of the Company on the over-the-counter market on the day in question as reported by the National Quotation Bureau Incorporated for National Market Securities, or a similarly generally accepted reporting service, or if not so available in such manner as furnished by a New York Stock Exchange member firm selected from time to time by the Board of Directors of the Company for that purpose; PROVIDED, HOWEVER, that if the Closing Price of the Company's common stock is to be determined with respect to the redemption of shares of \$7 Cumulative and Convertible Preferred Stock at any time on or before five years from the date of issuance of such shares of \$7 Cumulative and Convertible Preferred Stock, such Closing Price shall not be less than \$26.00 per share.

The term "Current Market Price" per share of the Company's common stock on any date shall be the average of the daily Closing Prices for the five consecutive Trading Dates ending on and including the date of determination of the Current Market Price (appropriately adjusted to take into account the occurrence during such five-day period of any event that results in an adjustment of the Common Equivalent Rate).

The term "Settlement Date" shall mean with respect to a Merger or Consolidation, the business day immediately prior to the effective date of the Merger or Consolidation.

The term "Trading Date" shall mean a date on which the New York Stock Exchange (or any successor exchange) is open for the transaction of business.

(f) Notwithstanding anything in this article to the contrary, the Common Equivalent Rate shall not be adjusted due to or as a result of the issuance or distribution to all of the holders of the Company's common stock of any common stock, right or warrant (i) under or as part of the Company's dividend reinvestment plan (as presently in existence or as hereafter amended) or (ii) under or as part of any employee benefit plan of the Company (as presently in existence or hereafter adopted). In addition, notwithstanding anything in this article to the contrary, the Common Equivalent Rate shall not be adjusted due to or as a result of the issuance or distribution to any or all of

the holders of the Company's common stock of any right, warrant, security convertible into common stock or other security (sometimes referred to collectively as "Shareholder Rights Securities") which is issued or distributed by the Company to deter the occurrence of any merger, consolidation or other business combination with a third party and/or to obtain for the holders of common stock of the Company a value which the Company believes is fair in such a merger, consolidation or other business combination, so long as either (1) to extent permitted by law, all holders of the \$7 Cumulative and Convertible Preferred Stock receive the same Shareholder Rights Securities pro rata (based upon the number of shares of the Company's common stock into which the \$7 Cumulative and Convertible Preferred Stock is convertible on the day prior to issuance or distribution of the Shareholder Rights Securities) or (2) each share of the Company's common stock into which the \$7 Cumulative and Convertible Preferred Stock is converted in connection with any such merger, consolidation or other business combination of the Company receives its pro rata entitlement of any Shareholder Rights Securities immediately upon conversion.

ARTICLE 7E. The Company created and established a sixth series of its preferred stock, without nominal or par value, in an original amount of twenty thousand (20,000) shares, which is designated as "\$8 Cumulative and Convertible Preferred Stock." The amount of such shares authorized outstanding from time to time may be reduced by periodic conversion of such shares at the election of the holder thereof into the common stock of the Company as expressly permitted under this Article 7E, without the ability to reissue such shares.

The preferences, rights, qualification, limitations and restrictions of the shares of the \$8 Cumulative and Convertible Preferred Stock, in the respects in which the shares of such series vary from shares of other series of the Company's preferred stock, are and shall be as follows:

(a) The dividend rate for the \$8 Cumulative and Convertible Preferred Stock shall be \$8 per share per annum;

(b) The shares of the \$8 Cumulative and Convertible Preferred Stock shall not be subject to redemption;

(c) The preferential amounts to which holders of shares of the \$8 Cumulative and Convertible Preferred Stock shall be entitled upon any liquidation, dissolution, or winding up of the Company whether voluntary or otherwise, or upon any distribution of the capital of the Company, shall be \$120 per share, plus accumulated and unpaid dividends thereon;

(d) Each share of the \$8 Cumulative and Convertible Preferred Stock shall be convertible at the election of the holder thereof at any time or from time to time within seven years from the date of issuance of such share into;

(i) Shares of the Company's common stock at the Common Equivalent Rate in effect on the date of conversion (the "Conversion Date"); plus

(ii) The right to receive an amount in cash equal to all accrued and unpaid dividends on such share to and including the Conversion Date, whether or not declared, out of funds legally available therefor.

Any holder of shares of \$8 Cumulative and Convertible Preferred Stock electing to convert such shares into shares of the Company's common stock shall provide written notice to the Company of such holder's election to convert, such notice to be sufficient if contained in a postage-paid envelope addressed and mailed to the Company. The time of mailing of such notice shall be deemed to be the date of delivery thereof. The holder's notice shall also include the following:

(i) The Conversion Date, which shall be not earlier than 45 days or later than 90 days from the date of delivery of such notice;

(ii) A description of the shares of \$8 Cumulative and Convertible Preferred Stock to be converted;

(iii) The name or names in which such holder wishes the Certificate or Certificates for shares of the Company's common stock to be issued; and

(iv) The holder's agreement to be responsible for the reasonable fees and expenses of the Company's transfer agent related to such issuance of common stock upon conversion.

(e) Each share of the \$8 Cumulative and Convertible Preferred Stock shall be convertible at the election of the Company at any time or from time to time after seven years from the date of issuance of such share into:

(i) Shares of the Company's common stock at the Common Equivalent Rate in effect on the date of conversion (the Conversion Date); plus

(ii) The right to receive an amount in cash equal to all accrued and unpaid dividends on such share to and including the Conversion Date, whether or not declared, out of funds legally available therefor.

If the Company elects to convert such shares into shares of the Company's common stock it shall provide written notice to the holders of \$8 Cumulative and Convertible Preferred Stock of the Company's election to

convert, such notice to be sufficient if contained in a postage-paid envelope addressed and mailed to the holders at the address of the holders last shown on the records of the Company. The time of mailing of such notice shall be deemed to be the date of delivery thereof. The Company's notice shall also include the following:

(i) The Conversion Date, which shall be not earlier than 45 days or later than 90 days from the date of such notice;

(ii) A description of the shares of \$8 Cumulative and Convertible Preferred Stock to be converted;

(iii) A request for the names or names in which such holder wishes the Certificate or Certificates for shares of the Company's common stock to be issued; and

(iv) The Company's agreement to be responsible for the reasonable fees and expenses of the Company's transfer agent related to such issuance of common stock upon conversion.

Immediately prior to the effectiveness of a merger or consolidation of the Company that results in the conversion or exchange of the common stock into, or the right to receive, other securities or other property (whether of the Company or any other entity) (any such merger or consolidation is referred to herein as a "Merger" or "Consolidation") each outstanding share of \$8 Cumulative and Convertible Preferred stock shall convert into:

(i) Shares of the Company's common stock at the Common Equivalent Rate in effect on the effective date of a Merger or Consolidation; plus the right to receive an amount of cash equal to the accrued and unpaid dividends on such share of \$8 Cumulative and Convertible Preferred Stock to and including the Settlement Date (and dividends shall cease to accrue as of the Settlement Date).

The Common Equivalent Rate to be used to determine the number of shares of the Company's common stock to be delivered pursuant to this article shall be initially 6.857 shares of the Company's common stock for each share of \$8 Cumulative and Convertible Preferred Stock; PROVIDED, HOWEVER, that such Common Equivalent Rate shall be subject to adjustment from time to time as provided below. All adjustments to the Common Equivalent Rate shall be calculated to the nearest 1/100th of a share of the Company's common stock. Such rate in effect at any time is herein called the "Common Equivalent Rate."

(i) If the Company shall either:

(1) pay a dividend or make a distribution with respect to its common stock, in either case, in shares of such common stock,

(2) subdivide or split its outstanding shares of common stock,

(3) combine its outstanding shares of common stock into a smaller number of shares, or

(4) issue by reclassification of its shares of common stock any shares of common stock of the Company, then, in any such event, the Common Equivalent Rate in effect immediately prior thereto shall be adjusted so that the holders of a share of \$8 Cumulative and Convertible Preferred Stock shall be entitled to receive on the conversion of such share, the number of shares of common stock of the Company which such holder would have owned or been entitled to receive after the happening of any of the events described above had such share of \$8 Cumulative and Convertible Preferred Stock been surrendered for conversion at the Common Equivalent Rate in effect immediately prior to such time. Such adjustment shall become effective at the opening of business of the business day next following the record date for determination of stockholders entitled to receive such stock dividend or distribution in the case of a stock dividend or distribution and shall become effective immediately after the effective date in case of a subdivision, split, combination or reclassification; and any shares of the Company's common stock issuable in payment of a dividend shall be deemed to have been issued immediately prior to the close of business on the record date for such dividend for purposes of calculating the number of outstanding shares of the Company's common stock under clauses (ii) and (iii) below.

(ii) If the Company shall issue rights or warrants to all holders of its common stock entitling them to subscribe for or purchase shares of the Company's common stock at a price per share less than the Current Market Price per share (determined as provided below) of the common stock of the Company on the record date for the determination of stockholders entitled to receive such rights or warrants, then in each case the Common Equivalent Rate shall be adjusted by multiplying the Common Equivalent Rate in effect immediately prior thereto by a fraction, of which the

numerator shall be the number of shares of the Company's common stock outstanding on the date of issuance of such rights or warrants, immediately prior to such issuance, plus the number of additional shares of its common stock offered for subscription or purchase, and of which the denominator shall be the number of shares of common stock of the Company outstanding on the date of issuance of such rights or warrants, immediately prior to such issuance, plus the number of shares which the aggregate offering price of the total number of shares so offered for subscription or purchase would purchase at such Current Market Price (determined by multiplying such total number of shares by the exercise price of such rights or warrants and dividing the product so obtained by such Current Market Price). Shares of common stock of the Company owned by the Company or by another company of which a majority of the shares entitled to vote in the election of directors are held, directly or indirectly, by the Company shall not be deemed to be outstanding for purposes of such computation. Such adjustment shall become effective at the opening of business on the business day next following the record date for the determination of stockholders entitled to receive such rights or warrants. To the extent that shares of the Company's common stock are not delivered after the expiration of such rights or warrants, the Common Equivalent Rate shall be readjusted to the Common Equivalent Rate which would then be in effect had the adjustments made upon the issuance of such rights or warrants been made upon the basis of delivery of only the number of shares of Common Stock actually delivered.

(iii) If the Company shall pay a dividend or make a distribution to all holders of its common stock of evidence of its indebtedness or other assets (including shares of capital stock of the Company but excluding any cash dividends or distributions and dividends referred to in clause (I) above), or shall distribute to all holders of its common stock rights or warrants to subscribe for or purchase securities of the Company (other than those referred to in clause (ii) above), then in each such case the Common Equivalent Rate shall be adjusted by multiplying the Common Equivalent Rate in effect immediately prior to the date of such distribution by a fraction, of which the numerator shall be the Current Market Price per share of the Company's common stock (determined pursuant to clause (v) below) on the record date mentioned below, and of which the denominator shall be such Current Market Price per share of the Company's common stock less the fair market value (as determined by the Board of Directors

of the Company, whose determination shall be conclusive) as of such record date of the portion of the assets or evidences of indebtedness so distributed, or of such subscription rights or warrants, applicable to one share of the common stock of the Company. Such adjustment shall become effective on the opening of business on the business day next following the record date for the determination of stockholders entitled to receive such distribution.

(iv) Anything in this article notwithstanding, the Company shall be entitled to make such upward adjustments in the Common Equivalent Rate, in addition to those required by this article, as the Company in its discretion shall determine to be advisable, in order that any stock dividends, subdivision of shares, distribution of rights to purchase stock or securities, or a distribution of securities convertible into or exchangeable for stock (or any transaction which would be treated as any of the foregoing transactions pursuant to Section 305 of the Internal Revenue Code of 1986, as amended) hereafter made by the Company to its stockholders shall not be taxable.

(v) As used in this article, the Current Market Price per share of the Company's common stock on any date shall be the average of the daily Closing Prices for the five consecutive Trading Dates ending on and including the date of determination of the Current Market Price (appropriately adjusted to take into account the occurrence during such five-day period of any event that results in an adjustment of the Common Equivalent Rate).

(vi) In any case in which this article shall require that an adjustment as a result of any event become effective at the opening of business on the business day next following a record date and the date fixed for conversion occurs after such record date, but before the occurrence of such event, the Company may in its sole discretion elect to defer paying to such holder any amount in cash in lieu of a fractional share of common stock of the Company, pursuant to this article.

Whenever the Common Equivalent Rate is adjusted as herein provided, the Company shall:

(i) forthwith compute the adjusted Common Equivalent Rate in accordance with this article and prepare a certificate signed by the Chief Executive Officer, the Chairman, the

President, any Vice President or the Treasurer of the Company setting forth the adjusted Common Equivalent Rate, the method of calculation thereof in reasonable detail and the facts requiring such adjustment and upon which such adjustment is based, and file such certificate forthwith with the transfer agent or agents for the \$8 Cumulative and Convertible Preferred Stock and the Company's common stock; and

(ii) mail a notice stating that the Common Equivalent Rate has been adjusted, the facts requiring such adjustment and upon which such adjustment is based and setting forth the adjusted Common Equivalent Rate to the holders of record of the outstanding shares of the \$8 Cumulative and Convertible Preferred Stock at or prior to the time the Company mails an interim statement to its stockholders covering the quarterly-yearly period during which the facts requiring such adjustment occurred, but in any event within 45 days of the end of such quarterly-yearly period.

No fractional shares of the Company's common stock shall be issued upon redemption or conversion of shares of the \$8 Cumulative and Convertible Preferred Stock but, in lieu of any fraction of a share of the Company's common stock which would otherwise be issuable in respect of the aggregate number of shares of the \$8 Cumulative and Convertible Preferred Stock surrendered by the same holder for redemption or conversion on any redemption or conversion date, the holders shall have the right to receive an amount in cash equal to the same fraction of the Closing Price.

The term "Closing Price" on any day shall mean the closing sale price regular way on such day or, in the case no such sale takes place on such day, the average closing bid and asked prices of the common stock of the Company on the over-the-counter market on the day in question as reported by the National Quotation Bureau Incorporated for National Market Securities, or a similarly generally accepted reporting service, or if not so available in such manner as furnished by an New York Stock Exchange member firm selected from time to time by the Board of Directors of the Company for that purpose.

The term "Current Market Price" per share of the Company's common stock on any date shall be the average of the daily Closing Prices for the five consecutive Trading Dates ending on and including the date of determination of the Current Market Price (appropriately adjusted to take into account the occurrence during such five-day period of any event that results in an adjustment of the Common Equivalent Rate).

The term "Settlement Date" shall mean with respect to a Merger or Consolidation, the business day immediately prior to the effective date of the Merger or Consolidation.

The term "Trading Date" shall mean a date on which the New York Stock Exchange (or any successor exchange) is open for the transaction of business.

(f) Notwithstanding anything in this article to the contrary, the Common Equivalent Rate shall not be adjusted due to or as a result of the issuance or distribution to all of the holders of the Company's common stock of any common stock, right or warrant (i) under or as part of the Company's dividend reinvestment plan (as presently in existence or as hereafter amended) or (ii) under or as part of any employee benefit plan of the Company (as presently in existence or hereafter adopted). In addition, notwithstanding anything in this article to the contrary, the Common Equivalent Rate shall not be adjusted due to or as a result of the issuance or distribution to any or all of the holders of the Company's common stock of any right, warrant, security convertible into common stock or other security (sometimes referred to collectively as "Shareholder Rights Securities") which is issued or distributed by the Company to deter the occurrence of any merger, consolidation or other business combination with a third party and/or to obtain for the holders of common stock of the Company a value which the Company believes is fair in such a merger, consolidation or other business combination, so long as either (1) to extent permitted by law, all holders of the \$8 Cumulative and Convertible Preferred Stock receive the same Shareholder Rights Securities pro rata (based upon the number of shares of the Company's common stock into which the \$8 Cumulative and Convertible Preferred Stock is convertible on the day prior to issuance or distribution of the Shareholder Rights Securities) or (2) each share of the Company's common stock into which the \$8 Cumulative and Convertible Preferred Stock is converted in connection with any such merger, consolidation or other business combination of the Company receives its pro rata entitlement of any Shareholder Rights Securities immediately upon conversion.

ARTICLE 7F. The preference stock shall be issuable from time to time in series with such designations, descriptions and terms thereof, in the manner and to the extent permitted by the laws of the State of New Jersey, as may be determined and fixed by the Board of Directors, subject to the provisions of subparagraph (f) below, as the time of the creation and establishment of any such series of preference stock. All of the shares of preference stock of each series shall rank pari passu with all of the shares of preference stock of each other series, and shall have the same rights and privileges, preferences and voting powers and shall be subject to the same restrictions or qualifications thereof, without distinction between the shares of the respective series except only as to variations in (i) the rates of dividend payable thereon, (ii) the terms on which shares of the respective series may be redeemed, (iii) the amount which shall be paid to the holders of shares of the respective series in case of dissolution or any distribution of assets, (iv) voting rights, if any, (v) the terms or amounts of any sinking fund provided for the purchase or redemption thereof, (vi) the terms on which the holders of shares of the respective series may convert the same into stock of any other class or classes or of any one or more series of the same class or of another class or

classes, and (vii) in such other respects, if any, as may at the time be permitted by the laws of the State of New Jersey.

(a) The holders of preference stock irrespective of the series thereof shall be entitled to receive, and the Company shall be obligated to pay, when and as declared by the Board of Directors of the Company and subject to the provisions of subparagraph (f) below, cumulative dividends at such respective rates as may be fixed by the Board of Directors of the Company at the time of the creation and establishment of the respective series, and no more, payable quarterly on the first date of March, June, September, and December, of each year. Such dividends shall accumulate from the date of the original issue of each share of such preference stock. Such dividends shall be payable before any dividend shall be paid upon or set apart for the common stock, and shall be cumulative, so that if at any time dividends at the rate fixed by the Board of Directors and designated by the certificates of shares of the series of which it is a part shall not be paid thereon or set apart therefor, the deficiency shall be fully paid or set apart for payment before any dividend shall be paid upon or set apart for the common stock. Dividends shall not be paid exclusively upon any one or more series of preference stock but dividends shall be paid ratably upon all outstanding preference stock in the proportions that the annual dividend requirements of each series bears to the total annual dividend requirements of all outstanding preference stock. Whenever all cumulative unpaid dividends on the preference stock, including the current quarterly dividend, shall have been fully paid or set apart for payment, the Board of Directors may declare and pay dividends on the common stock.

(b) The preference stock of one or more series may be subject to redemption, in which case such preference stock may be deemed and retired in whole, or in part, from time to time at any time on any quarterly dividend date at the option of the Company at such redemption prices as may be fixed by the Board of Directors at the time of the creation and establishment thereof; provided, however, that all stock of any particular series shall be redeemable at the same redemption price. The time, place and manner of such redemption shall be in the discretion of the Board of Directors of the Company. Preference stock which shall have been redeemed shall not be reissued, and the Company shall have from time to time cause all such shares to be retired in the manner provided by law. If less than all of the outstanding shares of preference stock subject to redemption are to be called for redemption, redemption may be made of any one or more series, or redemption may be made of less than all of the outstanding shares of any one or more series, in the discretion of the Board of Directors, and if less than all outstanding shares of any series are to be redeemed, the shares to be redeemed shall be determined in such manner as may be prescribed by the Board of Directors. Redemption shall be made, however, only on at least thirty (30) days' prior written notice to the holders of the shares to be redeemed which notice shall be

sufficient if contained in a post-paid envelope addressed and mailed to the holder at his address or record as shown by the books of the Company, and the time of mailing such notice shall be deemed to be the time of delivery thereof. From and after the date fixed in any such notice as the date of redemption (unless default shall be made by the Company in providing monies for the payment of the redemption price, pursuant to such notice) all dividends on the preference stock thereby called for redemption shall cease to accrue and all rights of the holders thereof as stockholders of the Company, except the right to receive the redemption price upon surrender of the certificates of stock by such holders, shall cease and determine.

(c) Subject to the provisions of subparagraph (f) below, the holders of each series of preference stock shall be entitled to receive payment out of the assets of the Company whether from capital or from earnings, in an amount per share determined and fixed by the Board of Directors at the time of the creation and establishment of such series of preference stock, in the event of (i) a voluntary liquidation, dissolution or winding up of the Company or of a voluntary sale of all or substantially all of the assets of the Company or upon any voluntary distribution of its capital, or (ii) an involuntary liquidation, dissolution or winding up of the Company or an involuntary sale of all or substantially all of the assets of the Company, or upon any involuntary distribution of its capital, before any payment shall be made or any assets distributed to the holders of common stock. If upon such liquidation, dissolution, winding up, sale of assets or distribution of the capital among the holders of the preference stock shall be insufficient to permit the payment to such holders of the full preferential amounts aforesaid, then the entire assets of the Company to be distributed shall be distributed ratably among the holders of the preference stock in proportion to the full preferential amounts, if any, to which they are respectively entitled as aforesaid. After payment or distribution of the assets of the Company ratably among the holders of preferred stock in accordance with the provisions of Article 7A (d) and after payment or distribution of remaining assets, if any, to the holders of preference stock as provided in this paragraph, the holders of common stock shall be entitled to receive, ratably, any remaining assets of the Company. A consolidation or merger of the Company with any other corporation or corporations shall not be deemed to be a liquidation, dissolution, winding up, sale or distribution of capital, within the meaning of this clause, but no such consolidation or merger shall in any way impair the rights and preferences of the preference stock.

(d) So long as any shares of the preference stock of any series are outstanding, the Company shall not, without the consent (given by vote at a meeting called for that purpose) of the holders of a majority of the total number of shares of the preference stock of all series then outstanding, voting as a class, issue, sell or otherwise dispose of any additional series of preference stock ranking prior to with the preference stock as to dividends or distributions, unless (i) the stated

value of common stock and surplus earnings on the books of the Company shall be at least two (2) times the involuntary liquidation preferences of the entire amount of preference stock of the Company already issued and then outstanding, and the additional stock then proposed to be issued; and (ii) the earnings of the Company available for the payment of interest determined in accordance with generally accepted accounting practices shall have been for a period of twelve (12) consecutive calendar months within the fifteen (15) calendar months immediately preceding the issuance of such additional stock, at least one and one-half (1-1/2) times the annual interest requirements on all outstanding obligations for the payment of money, secured and unsecured, of the Company maturing more than twelve (12) months after the issuance of the shares proposed to be issued plus annual dividend requirements upon all outstanding preference stock of the Company and all other classes of stock ranking prior to or on a parity with the preference stock as to dividends and distributions, including the shares proposed to be issued, minus any interest on any such obligations and dividends on any such outstanding stock to be retired or refunded out of the proceeds of the shares proposed to be issued. The Company may, without the consent of the holders of preference stock, increase the number of shares of any class of stock other than preference stock which the Company is authorized to issue and may create and establish any series thereof as herein provided.

(e) Except as required by law, holders of preference stock shall have such voting rights, if any, with respect to such preference stock as are fixed by the Board of Directors at the time of the issuance of the series of such preference stock; however, no holder of preference stock shall have or be granted voting rights with respect to each or any share of preference stock held by such holder which exceed or are superior to (with respect to number of votes per share, the subject matter upon which voting is permitted or required, or otherwise) the voting rights a holder of common stock shall have with respect to each or any share of common stock held by such common stock holder. However, notwithstanding the foregoing provisions of this paragraph, if and whenever dividends on the preference stock shall be in arrears and such arrears shall aggregate an amount at least equal to four (4) quarterly dividends, which need not be consecutive, then and in such event, the holders of the outstanding preference stock of all series shall be entitled, at the next ensuing annual meeting of the stockholders, voting as a class, to elect two members (herein called "preference stock directors") of the Board of Directors, which preference stock directors shall be in addition to the directors holding office pursuant to ARTICLE 4 hereof and in addition to any directors holding office or to be elected as preferred stock directors; and provided further that if and whenever any such four (4) quarterly dividend arrearage shall occur, the Company shall, within fifteen (15) days after the receipt by the Company of written request of not less than twenty-five per cent (25%) of the holders of the outstanding preference stock, as a class, and irrespective of series, cause to be called a special meeting of the

holders of outstanding preference stock of all series, to be held on the earliest practicable date, to elect the preference stock directors, as aforesaid. For purposes of any such election such holder or holders of preference stock as are present in person or by proxy shall constitute a quorum, irrespective of whether any holders of any other capital stock of the Company are present at such meeting. Any vacancy in the position of preference stock director, which, but for this provision, could be filled by such person as the Board of Directors might designate, shall be filled by the Board of Directors from among such persons as the remaining preference stock directors shall designate, and such successor shall hold office for the unexpired term of the prior incumbent and until his successor shall be duly chosen and shall qualify. Such right of the holders of the outstanding preference stock to elect two members of the Board of Directors shall continue at each annual meeting until such time as all arrears of dividends thereon for the current quarterly period shall have been paid or declared and provided for, in which event such right of the holders of preference stock to elect preference stock directors as provided in this subparagraph (e) shall cease at the next ensuing annual meeting of stockholders, subject always to the same provisions for the vesting of such right in the case of any such future arrearages in dividends.

(f) Notwithstanding any of the provisions contained in subparagraphs (a) through (e) above, (i) the preferred stock shall rank prior to the preference stock as to both dividends and the right to receive payment out of the assets of the Company upon any voluntary liquidation, dissolution or winding up of the Company, or any voluntary sale of all or substantially all of the assets of the Company, or any voluntary distribution of its capital, or any involuntary liquidation, dissolution or winding up of the Company, or any involuntary sales of all or substantially all of the assets of the Company, or any involuntary distribution of its capital, (ii) the Company shall not pay any dividends on the shares of preference stock at any time outstanding unless and until all dividends payable on the shares have been paid or declared and set aside for payment, and (iii) no distribution shall be made on any shares of preference stock at any time outstanding, and no payment of any kind shall be made thereon to any holder thereof, unless all payments required to be made on the shares of preferred stock outstanding at such time and to the holders thereof, whether upon redemption or pursuant to the provisions of any sinking fund provided therefor, or upon a voluntary liquidation, dissolution or winding up of the Company or a voluntary sale of all or substantially all of the assets of the Company or any voluntary distribution of its capital, or an involuntary liquidation, dissolution or winding up of the Company or an involuntary sale of all or substantially all of the assets of the Company, or any involuntary distribution of its capital, or otherwise, shall have been paid or shall have been irrevocably set aside for payment.

Nothing contained in subparagraph (e) above pertaining to the rights of the holders of preference stock to elect directors shall be deemed to affect the rights of holders of preferred stock to elect directors upon default in the payment of dividends on the preferred stock.

ARTICLE 8. Any action which, at any meeting of stockholders, requires the vote, assent or consent of two-thirds in interest of all of the stockholders of the Company, or of two-thirds in interest of each class of stockholders of the Company having voting power, or which requires such assent or consent in writing to be filed, may be taken upon the assent of and the assent given and filed, as the case may be, by two-thirds in interest of the stockholders of the Company present and voting at such meeting in person or by proxy, but where assent by classes is required such assent shall be given by two-thirds in interest of each class so present and voting.

ARTICLE 9. Any and all action requiring stockholder approval may only be taken at an annual or special meeting of stockholders of the Company and not by consent in lieu of such meeting.

ARTICLE 10. To the full extent from time to time as permitted by law, directors and officers of the Corporation shall not be personally liable to the Corporation or its stockholders for damages for breach of any duty owed to the Corporation or its stockholders. No amendment or repeal of this provision shall adversely affect any right or protection of a director or officer of the Corporation existing at the time of such amendment or repeal.

Dated: February 27, 1997
Iselin, New Jersey

MIDDLESEX WATER COMPANY
=====

/s/ J. Richard Tompkins

J. Richard Tompkins
Chairman of the Board and President

Attest: /s/ Marion F. Reynolds

Marion F. Reynolds
Vice President, Secretary and Treasurer

CERTIFICATE
OF AMENDMENT TO THE
RESTATED CERTIFICATE OF INCORPORATION

To: The Secretary of State of the State of New Jersey.

Pursuant to the provisions of N.J.S.A. 14A.9-2(4) and N.J.S.A. 14A: 9.4 the undersigned Corporation executes the following Certificate of Amendment to its Restated Certificate of Incorporation.

1. The name of the Corporation is MIDDLESEX WATER COMPANY. The principal office of the Corporation is 1500 Ronson Road, Iselin, New Jersey 08830-3020.

2. The Company adopted the following amendment:

The first sentence of Article 7A of the Company's Restated Certificate of Incorporation is amended to read as follows:

ARTICLE 7A. The total authorized capital stock of the Company is 6,250,000 shares, divided into 6,000,000 shares of common stock without nominal or par value, 150,000 shares of preferred stock without nominal or par value and 100,000 shares of preference stock without nominal or par value.

3. Such amendment was adopted by the shareholders on May 28, 1997.

4. The number of shares entitled to vote on the amendment was 4,219,516 shares of the Company's Common Stock, no par value.

5. 2,116,563 shares were voted for the amendment, 430,091 shares were voted against such amendment and 109,167 shares abstained from voting on such amendment.

MIDDLESEX WATER COMPANY

/s/ Marion F. Reynolds

Marion F. Reynolds
Vice President, Secretary and Treasurer

Dated: May 29, 1997

(SEAL)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The companies referred to herein are defined in Note 1(a), Notes to the Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company's actual capital expenditures for 1996 and 1997 and projected requirements through 2000 are detailed as follows:

	(in millions)				
	1996	1997	1998	1999	2000
	----	----	----	----	----
CJO Plant	\$ 0.9	\$ 3.1	\$ 18.0	\$ 15.0	\$ --
Delaware Systems	1.6	1.4	4.6	1.4	0.2
RENEW Program	0.9	1.8	2.0	2.0	2.0
Scheduled upgrades to existing systems	3.7	4.4	3.7	4.7	3.6
Total	\$ 7.1	\$ 10.7	\$ 28.3	\$ 23.1	\$ 5.8
	-----	-----	-----	-----	-----

The upgrade of the Carl J. Olsen Water Treatment Plant (CJO Plant), which began construction in November 1997, is necessary to comply with new and anticipated environmental laws and regulations and to expand the plant's production capacity. The project is scheduled for completion in June 1999. Delaware expenditures reflect the continued water system development of Tidewater and Public, which was acquired in July 1997. Middlesex's RENEW Program is designed to rehabilitate approximately 7 to 9 miles per year, 200 miles in total, of unlined cast-iron pipe by adding a cement mortar lining. This program will result in improved overall water quality and service and will strengthen the water distribution infrastructure. Scheduled upgrades include transmission and distribution mains, hydrants, service lines, meters and transportation and general equipment.

Sources of Capital - Expenditures in 1997 were financed by utilization of the December 31, 1996 cash balance, internally generated funds from operations and the sale of common stock through the Dividend Reinvestment and Common Stock Purchase Plan (DRP).

On January 23, 1998, Middlesex received approval from the Board of Public Utilities (BPU) to issue \$23.0 million of tax-exempt New Jersey Economic Development Authority bonds, which are expected to be issued in March 1998. This bond issue will be used to finance a substantial part of the CJO Plant project. The remainder of the project and other capital expenditures will be financed through internally generated funds and sale of common stock through DRP. In October 1997, the Board of Directors approved a 5% discount on shares of common stock sold to participants of its DRP between the period of January 2, 1998 and June 1, 1998. In addition, the Company will utilize short-term borrowings through lines of credit. Middlesex has available \$20.0 million under these commitments and began to draw upon them in January 1998. In December 1997, the Board of Directors approved an increase in the lines of credit to \$30.0 million. A subsequent offering of common equity will be considered based on the level of funds generated internally and from the DRP.

RESULTS OF OPERATIONS
1997 COMPARED TO 1996

Net income increased 13.4% to \$5.9 million in 1997 compared with \$5.2 million in the prior year. Operating revenues increased by \$2.3 million to \$40.3 million due to favorable weather conditions in New Jersey and Delaware, continued growth in Tidewater's customer base of 12%, rate increases implemented by the Pinelands Companies, increased contract revenues from USA and the inclusion of Public's operating results since August 1997.

Offsetting effects to net income were higher operations and maintenance expenses of \$0.8 million or 4.1%, which reflected increased purchased water of \$0.3 million; transmission and distribution expenses of \$0.3 million; administrative and general expenses of \$0.3 million and the inclusion of operating expenses for Public of \$0.2 million. These increases were offset by reductions in purchased power and water treatment expenses of \$0.3 million.

Depreciation expense increased 4.8% due to a higher level of depreciable plant in service. Taxes, other than income taxes increased \$0.2 million and were related primarily to revenue-related taxes. A higher level of taxable income resulted in a \$0.6 million increase in federal taxes.

RESULTS OF OPERATIONS
1996 COMPARED TO 1995

Consolidated operating revenues in 1996 were \$0.2 million higher than in 1995. Consumption was lower in all major classes of customers. These decreases were offset by additional fixed service charges as a result of an increased customer base in Delaware of 12.5% and the inclusion of revenues from the Pinelands Companies and USA for a full year in 1996.

Operations and maintenance expenses were \$0.9 million or 4.8% higher in 1996 over 1995 due principally to increases in purchased water of \$0.3 million; water treatment of \$0.3 million; pumping expenses of \$0.2 million; and customer accounts and administrative and general expenses of \$0.3 million; offset by a decrease in transmission and distribution expenses of \$0.2 million.

Depreciation increased \$0.1 million or 4.1% due to a higher depreciation base. Federal income taxes decreased \$0.5 million due to lower taxable income. Interest expenses increased \$0.2 million or 5.3% as a result of the long-term borrowings by Tidewater.

As a result, net income decreased \$0.5 million or 9.4%.

REGULATORY MATTERS

On January 29, 1998, the BPU approved an increase in the rates of Middlesex by 4.4% or \$1.5 million. The original petition was filed in November 1996.

10 ===== CONTINUING THE EXCELLENCE =====

Under the approval, the allowed return on equity is 11.0% with an overall rate of return of 8.56%. The increase includes the recovery of postretirement costs other than pension expenses which are mandated by the Company's compliance with Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The last increase in base rates granted by the BPU was \$2.8 million or 9.33% in April 1993.

In January 1997, the BPU approved a stipulation agreed to by the parties to the Pinelands Water and Wastewater Companies' rate cases which were filed in February 1996. The stipulations allow for a combined rate increase which will result in \$0.4 million additional revenues. The new rates will be phased in over a three-year period to minimize the impact on customers. Phases one and two were implemented in January of 1997 and 1998, respectively.

ACCOUNTING STANDARDS

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share," (SFAS No. 128). This statement supersedes Accounting Principles Bulletin Opinion No. 15, "Earnings Per Share," and simplifies the reporting and computing of earnings per share (EPS). SFAS No. 128 requires dual presentation of basic and diluted earnings per share on the face of the income statement and requires a reconciliation of the basic EPS computation to the diluted EPS computation. At December 31, 1997, the Company adopted SFAS No. 128, with no impact resulting on EPS as computed in the periods presented.

In June 1997, the FASB also issued SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information." The Company is evaluating the requirements of SFAS No. 130 and SFAS No. 131, which are required to be adopted in the 1998 fiscal year. These statements relate solely to disclosure provisions and, therefore, will not have any effect on the Company's financial position, results of operations or cash flows.

YEAR 2000 DISCLOSURE

The Company has assessed the effect of the Year 2000 issue on its computer systems and believes that all of its systems are in compliance.

OUTLOOK

Revenues and earnings are expected to improve in 1998 based on anticipated customer growth in Delaware, the second phase of the Pinelands rate increase and the implementation of the Middlesex rate increase. The level of improvement may be impacted by weather conditions.

Currently, there are no plans to file for rate relief in Delaware. The timing of the current year capital program and customer growth will determine Tidewater's need to file for rate relief. The timing of capital expenditures for the CJO Plant project will also guide Middlesex's need to file for an increase in rates.

Middlesex continues to pursue growth opportunities through acquisitions and public/private partnerships. These opportunities in both the regulated and non-regulated sectors that are financially sound, complement existing operations and increase shareholder value will be pursued.

Certain matters discussed in this annual report are "forward-looking statements" intended to qualify for safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. Such statements address future plans, objectives, expectations and events concerning various matters such as capital expenditures, earnings, litigation, growth potential, rate and other regulatory matters, liquidity and capital resources and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

REPORT OF MANAGEMENT

The consolidated financial statements and other financial information included in this annual report have been prepared by and are the responsibility of Management. The statements have been prepared in conformity with generally accepted accounting principles considered appropriate under the circumstances and include amounts based on necessary judgment and estimates deemed appropriate.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that assets are protected from improper use and loss and to provide reliable financial information.

The consolidated financial statements of the Company have been audited by its independent auditors, Deloitte & Touche LLP, and their report is included herein.

The Board of Directors, through its Audit Committee consisting solely of outside Directors, is responsible for overseeing and reviewing the Company's financial reporting and accounting practices. The Audit Committee meets periodically with the independent auditors to review the scope of their work and discuss any changes and developments that may impact the Company.

/s/ J. Richard Tompkins

/s/ A. Bruce O'Connor

J. Richard Tompkins
Chairman of the Board
and President

A. Bruce O'Connor
Vice President and
Controller

February 13, 1998

===== CONTINUING THE EXCELLENCE ===== 11

MIDDLESEX WATER COMPANY
CONSOLIDATED BALANCE SHEETS

ASSETS

		DECEMBER 31,	
		1997	1996

UTILITY PLANT (NOTE 5):	Water Production	\$ 27,689,254	\$ 27,378,668
	Transmission and Distribution	113,104,789	103,852,969
	General	18,845,301	18,156,233
	Construction Work in Progress	5,683,217	319,238

	TOTAL	165,322,561	149,707,108
	Less Accumulated Depreciation	30,251,825	28,462,588

	UTILITY PLANT - NET	135,070,736	121,244,520

	NONUTILITY ASSETS - NET	2,038,568	1,774,106

CURRENT ASSETS:	Cash and Cash Equivalents	2,513,294	4,045,362
	Accounts Receivable	3,794,860	4,022,129
	Unbilled Revenues	2,175,934	2,175,478
	Materials and Supplies (at average cost)	960,577	1,034,572
	Prepayments and Other Current Assets	606,274	647,500

	TOTAL CURRENT ASSETS	10,050,939	11,925,041

DEFERRED CHARGES:	Unamortized Debt Expense	2,773,233	2,848,352
	Preliminary Survey and Investigation Charges	213,650	1,716,884
	Regulatory Assets:		
	Income Taxes (Note 3)	6,031,247	6,181,048
	Postretirement Costs (Note 4)	1,328,722	1,003,716
	Other (Note 2)	2,253,678	1,965,855

	TOTAL DEFERRED CHARGES	12,600,530	13,715,855

	TOTAL	\$159,760,773	\$148,659,522

See Notes to Consolidated Financial Statements.

=====

CAPITALIZATION AND LIABILITIES

DECEMBER 31,
1997 1996

CAPITALIZATION
(SEE ACCOMPANYING

STATEMENTS AND NOTE 9):	Common Stock	\$ 31,138,484	\$ 29,988,966
	Retained Earnings	20,087,065	19,226,847
	TOTAL COMMON EQUITY	51,225,549	49,215,813
	Cumulative Preferred Stock	4,995,635	2,666,305
	Long-term Debt	52,918,245	52,960,953
	TOTAL CAPITALIZATION	109,139,429	104,843,071

CURRENT LIABILITIES:

Current Portion of	Long-term Debt	42,708	39,047
	Notes Payable	564,701	--
	Accounts Payable	3,602,420	1,686,652
	Customer Deposits	393,376	377,702
	Taxes Accrued	5,142,089	4,529,185
	Interest Accrued	1,183,561	1,168,242
	Other	2,039,828	2,125,683
	TOTAL CURRENT LIABILITIES	12,968,683	9,926,511

COMMITMENTS AND CONTINGENT LIABILITIES (NOTE 5)

DEFERRED CREDITS:

Customer Advances for	Construction	10,830,646	8,977,081
Accumulated Deferred Investment	Tax Credits (Note 3)	2,237,060	2,308,736
Accumulated Deferred Federal	Income Taxes (Note 3)	12,177,993	12,088,144
Other		2,051,895	1,715,458
	TOTAL DEFERRED CREDITS	27,297,594	25,089,419
CONTRIBUTIONS IN AID OF	CONSTRUCTION	10,355,067	8,800,521
	TOTAL	\$159,760,773	\$148,659,522

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
OPERATING REVENUES (NOTE 2)	\$40,294,118	\$38,024,669	\$37,846,899
OPERATING EXPENSES:			
Operations:			
Water Purchased (Note 5)	3,234,770	2,965,616	2,656,423
Other	14,562,190	14,284,315	13,573,581
Maintenance	1,741,487	1,527,842	1,686,051
Depreciation	3,070,843	2,929,106	2,813,927
Taxes, other than Income Taxes	5,781,641	5,569,047	5,479,299
Federal Income Taxes (Note 3)	3,135,118	2,526,297	2,975,227
TOTAL OPERATING EXPENSES	31,526,049	29,802,223	29,184,508
OPERATING INCOME	8,768,069	8,222,446	8,662,391
OTHER INCOME:			
Allowance for Funds Used During Construction - Equity	97,314	39,891	21,654
Other - Net	281,622	185,277	134,461
TOTAL OTHER INCOME	378,936	225,168	156,115
INCOME BEFORE INTEREST CHARGES	9,147,005	8,447,614	8,818,506
INTEREST CHARGES:			
Interest on Long-term Debt	3,163,035	3,166,786	2,981,258
Allowance for Funds Used During Construction - Debt	(50,598)	(23,723)	(5,606)
Amortization of Debt Expense	121,089	120,930	121,138
Other Interest Expense	52,573	16,161	17,972
TOTAL INTEREST CHARGES	3,286,099	3,280,154	3,114,762
NET INCOME	5,860,906	5,167,460	5,703,744
PREFERRED STOCK DIVIDEND REQUIREMENTS	226,027	158,926	158,932
EARNINGS APPLICABLE TO COMMON STOCK	\$ 5,634,879	\$ 5,008,534	\$ 5,544,812
EARNINGS AND DIVIDENDS PER SHARE OF COMMON STOCK:			
Basic and Diluted Earnings per Share	\$ 1.33	\$ 1.20	\$ 1.36
Dividends Paid per Share	\$ 1.12 1/2	\$ 1.10 1/2	\$ 1.08 1/2
Average Number of Shares Outstanding	4,235,082	4,169,334	4,078,890

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF CAPITAL STOCK
AND LONG-TERM DEBT

DECEMBER 31,
1997 1996

Common Stock, No Par Value (Notes 4 and 9):		
Shares Authorized - 6,000,000		
Shares Outstanding - 1997 - 4,269,217	\$31,425,398	\$30,281,565
1996 - 4,204,949		
Restricted Stock Plan	(286,914)	(292,599)
TOTAL COMMON STOCK	\$31,138,484	\$29,988,966
Cumulative Preference Stock, No Par Value:		
Shares Authorized - 100,000		
Shares Outstanding - None		
Cumulative Preferred Stock, No Par Value (Note 9):		
Shares Authorized - 150,000		
Convertible:		
Shares Outstanding, \$7.00 Series - 1997 - 14,881	\$ 1,562,505	
1996 - 14,901		\$ 1,564,605
Shares Outstanding, \$8.00 Series - 20,000	2,331,430	
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1,017	101,700	101,700
Shares Outstanding, \$4.75 Series - 10,000	1,000,000	1,000,000
TOTAL CUMULATIVE PREFERRED STOCK	\$ 4,995,635	\$ 2,666,305
Long-term Debt (Note 9):		
8.05%, Amortizing Secured Note, due December 20, 2021	\$ 3,460,953	\$ 3,500,000
First Mortgage Bonds:		
7.25%, Series R, due July 1, 2021	6,000,000	6,000,000
5.20%, Series S, due October 1, 2022	12,000,000	12,000,000
5.25%, Series T, due October 1, 2023	6,500,000	6,500,000
6.40%, Series U, due February 1, 2009	15,000,000	15,000,000
5.25%, Series V, due February 1, 2029	10,000,000	10,000,000
SUBTOTAL LONG-TERM DEBT	\$52,960,953	\$53,000,000
Less: Current Portion of Long-term Debt	\$ (42,708)	\$ (39,047)
TOTAL LONG-TERM DEBT	\$52,918,245	\$52,960,953

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
NET INCOME	\$ 5,860,906	\$ 5,167,460	\$ 5,703,744
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	3,145,218	3,011,337	2,925,928
Provision for Deferred Income Taxes	778,521	811,993	278,384
Allowance for Funds Used During Construction	(147,912)	(63,614)	(27,260)
Changes in Current Assets and Liabilities:			
Accounts Receivable	305,079	202,524	12,147
Materials and Supplies	73,995	(3,771)	(36,907)
Accounts Payable	1,875,893	165,137	(95,430)
Accrued Income Taxes	612,904	207,266	(122,453)
Accrued Interest	11,170	(48,609)	82,628
Unbilled Revenues	29,344	(5,335)	(26,348)
Other - Net	81,594	812,337	227,334
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,626,712	10,256,725	8,921,767
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility Plant Expenditures*	(10,233,685)	(6,172,482)	(8,990,408)
Cash from Acquisition of Subsidiary	158,436	--	--
Notes Receivable	5,963	--	(1,250,000)
Preliminary Survey & Investigation Charges	(458,016)	(883,015)	(180,541)
Marketable Securities	--	--	931,750
Other - Net	(779,145)	(657,958)	(93,919)
NET CASH USED IN INVESTING ACTIVITIES	(11,306,447)	(7,713,455)	(9,583,118)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of Long-term Debt	(41,780)	(1,200,000)	--
Proceeds from Issuance of Long-term Debt	--	1,000,000	3,700,000
Temporary Cash Investments-Restricted	9,996	(152,593)	212,362
Proceeds from Issuance of Common Stock - Net	1,147,418	1,168,122	1,669,171
Deferred Debt Issuance Expenses	--	(251)	(53,719)
Payment of Preferred Dividends	(239,361)	(158,926)	(158,497)
Payment of Common Dividends	(4,761,327)	(4,604,504)	(4,421,852)
Construction Advances and Contributions - Net	1,032,721	549,604	884,140
Redemption of Preferred Stock	--	--	(123,800)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(2,852,333)	(3,398,548)	1,707,805
NET CHANGES IN CASH AND CASH EQUIVALENTS	(1,532,068)	(855,278)	1,046,454
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,045,362	4,900,640	3,854,186
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,513,294	\$ 4,045,362	\$ 4,900,640
*Excludes Allowance for Funds Used During Construction.			
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:			
Cash Paid During the Year for:			
Interest (net of amounts capitalized)	\$ 3,045,867	\$ 3,116,338	\$ 2,877,483
Income Taxes	\$ 1,702,200	\$ 2,117,998	\$ 3,078,000

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
BALANCE AT BEGINNING OF YEAR	\$ 19,226,847	\$ 18,822,817	\$ 17,699,422
NET INCOME	5,860,906	5,167,460	5,703,744
TOTAL	25,087,753	23,990,277	23,403,166
CASH DIVIDENDS:			
Cumulative Preferred Stock	239,361	158,926	158,497
Common Stock	4,761,327	4,604,504	4,421,852
TOTAL DEDUCTIONS	5,000,688	4,763,430	4,580,349
BALANCE AT END OF YEAR	\$ 20,087,065	\$ 19,226,847	\$ 18,822,817

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Organization - Middlesex Water Company (Middlesex) is the parent company and sole shareholder of Tidewater Utilities, Inc. (Tidewater), Pinelands Water Company, Pinelands Wastewater Company, and Utility Service Affiliates, Inc. (USA). Public Water Supply Company, Inc. (Public), acquired in July 1997, and White Marsh Environmental Systems, Inc., 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 intercompany accounts and transactions have been eliminated.

(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 and Public maintain their accounts in accordance with the Public Service Commission of Delaware (PSC) requirements.

(c) Utility Plant - Utility Plant is stated at original cost as defined for regulatory purposes. Property accounts are charged with the cost of betterments and major replacements of property. Cost includes direct material, labor and indirect charges for pension benefits and payroll taxes. Middlesex, Tidewater, Pinelands Water and Pinelands Wastewater capitalize an Allowance for Funds Used During Construction on individual projects with costs exceeding specific thresholds for each company. 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, together with removal costs, less salvage. 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, 1997, there was no event or change in circumstance that would indicate that the carrying amount of any long-lived asset was not recoverable.

(d) Accounts Receivable - Provision for allowance for doubtful accounts at December 31, 1997, 1996 and 1995, and the corresponding expense and deduction for those years, is each less than \$0.1 million.

(e) Revenues - In general, revenues are recorded as service is rendered and include estimates for amounts unbilled at the end of the period for water used subsequent to the last billing cycle. Service charges are billed in advance by the Delaware subsidiaries and are recognized in revenue as the service is provided.

(f) Deferred Charges - Unamortized Debt Expense is amortized over the lives of the related issues. As authorized by the BPU, main cleaning and lining costs, tank painting and regulatory expenses are amortized over 3 to 14-year periods.

(g) 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.

(h) 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, money market funds and U.S. Treasury Bills maturing in less than 90 days.

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

(j) New Accounting Standards - In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," (SFAS No. 130) and SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information," (SFAS No. 131). The Company is evaluating the requirements of SFAS No. 130 and SFAS No. 131, which are required to be adopted in the 1998 fiscal year. These statements relate solely to disclosure provisions and, therefore, will not have any effect on the Company's financial position, results of operations or cash flows.

(k) Certain prior year amounts have been reclassified to conform to the current year reporting.

NOTE 2 - RATES AND REVENUES

On January 29, 1998, Middlesex received approval from the BPU for an overall rate increase of 4.4% or \$1.5 million based on an original petition filed in November 1996. Under the approval, the allowed return on equity is 11.0% with an overall rate of return of 8.56%. The increase includes recovery of postretirement costs other than pension expenses which are mandated by the Company's compliance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and a return on the 4.1% increase to rate base since the last rate case. The last increase in base rates granted by the BPU was \$2.8 million or 9.33% in April 1993.

On January 23, 1998, Middlesex received approval from the BPU to issue \$23.0 million of tax-exempt New Jersey Economic Development Authority bonds. The proceeds of the bonds will be used to finance a significant portion of the upgrade of the Carl J. Olsen Water Treatment Plant (CJO Plant). The bonds will be competitively bid and are expected to be issued in March 1998.

In January 1997, the BPU approved a stipulation agreed to by the parties to the Pinelands Water and Wastewater Companies' rate cases which were filed on February 21, 1996. The stipulations allow for a combined rate increase which will result in \$0.4 million additional revenues. To minimize the impact on customers, the new rates will be phased in over a three-year period which began in 1997. The second phase of the increase was implemented in January 1998.

Included in Deferred Charges-Other is \$0.2 million of deferred costs at December 31, 1997, which Middlesex, Pinelands Water and Pinelands Wastewater are recovering through rates over periods of 3 to 14 years. The BPU has excluded these costs from their rate bases and, therefore, they are not earning a return on the unamortized costs during the recovery periods.

NOTE 3 - INCOME TAXES

Federal 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)		
	1997	1996	1995
Income Tax at Statutory Rate of 34%	\$2,956	\$2,616	\$2,951
Tax Effect of:			
Allowance for Funds Used During Construction	(49)	(22)	(9)
Other	(133)	(68)	33
Total Federal Income Tax Expense	\$2,774	\$2,526	\$2,975
Federal income tax expense is comprised of the following:			
Current	\$2,117	\$1,835	\$2,726
Deferred:			
Customer Advances	63	35	(265)
Accelerated Depreciation	753	760	637
Investment Tax Credit	(72)	(72)	(72)
Other	(87)	(32)	(51)
Total Federal Income Tax Expense	\$2,774	\$2,526	\$2,975
Charged to: Operating Expenses	\$3,135	\$2,526	\$2,975
Other Income-Net	(361)	--	--
Total Provision	\$2,774	\$2,526	\$2,975

The statutory review period for income tax returns for the years prior to 1994 has been closed.

Under SFAS No. 109, "Accounting for Income Taxes," the Company is required to set up deferred income taxes for all temporary differences regardless of the regulatory ratemaking treatment. However, if it is probable that these additional taxes will be passed on to ratepayers, an offsetting regulatory asset or liability is to be recorded. Management believes that it is probable that the consolidated deferred income tax liability of approximately \$6.0 million will be recovered in future rates. Therefore, a regulatory asset has been set up to offset the increased liability.

=====

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

	YEARS ENDED DECEMBER 31, (THOUSANDS OF DOLLARS)	
	1997	1996
Utility Plant Related	\$ 17,151	\$ 16,278
Customer Advances	(4,586)	(3,920)
Other	(387)	(270)
Total Deferred Tax Liability	\$ 12,178	\$ 12,088

NOTE 4 - 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. The Company makes annual contributions to the plan consistent with the funding requirements of Federal laws and regulations. In 1996, employees of Tidewater became eligible to participate in the Plan.

Pension expenses for 1997, 1996 and 1995 were \$0.3 million, \$0.3 million and \$0.4 million, respectively.

Plan assets consist primarily of corporate equities, cash equivalents and stock and bond funds. The following table sets forth the plan's funded status and amounts recognized in the Company's balance sheets.

	YEARS ENDED DECEMBER 31, (THOUSANDS OF DOLLARS)	
	1997	1996
Actuarial present value of plan benefits:		
Vested benefits	\$ (9,487)	\$ (8,791)
Nonvested benefits	(47)	(42)
Impact of estimated future compensation charges	(3,350)	(2,921)
Projected plan benefits	(12,884)	(11,754)
Plan assets at fair value	14,777	12,831
Plan assets in excess of projected plan benefits	1,893	1,077
Unrecognized net obligation	58	72
Unrecognized prior service cost	113	120
Unrecognized net gain	(2,363)	(1,346)
Accrued pension cost recognized in the balance sheet	\$ (299)	\$ (77)

Net pension cost includes the following components:

Service cost benefits earned during the period	\$ 430	\$ 408
Interest cost on projected benefit obligation	827	787
Return on plan assets	(1,002)	(924)
Net amortization and deferral	17	21
Net pension cost	\$ 272	\$ 292

The assumptions used in determining the actuarial present value of the projected obligation at December 31, 1997 and 1996 were discount rates of 7.0% and 7.25%, respectively and a compensation increase of 4.75%. The expected long-term rate of return on plan assets used in determining net periodic cost was 8.0%. The actual returns on Plan assets at December 31, 1997 and 1996 were 20.0% and 12.1%, respectively.

The Company maintains an unfunded supplemental pension plan for its executives. At December 31, 1997, 1996 and 1995 expenses for the supplemental plan were \$0.3 million, \$0.3 million and \$0.2 million, and the projected benefit obligations were \$1.7 million, \$1.4 million and \$1.3 million, respectively.

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (PBOP)

Middlesex provides certain health care and life insurance benefits for substantially all of its retired employees, which are accounted for in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," (SFAS No. 106). SFAS No. 106 requires an accrual method of accounting for PBOP. Previously, the cost of these benefits were expensed when incurred.

In accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," the Company has recognized a deferred regulatory asset relating to the difference between the accrued PBOP costs determined under SFAS No. 106 and the pay-as-you-go amounts previously expensed. The regulatory assets at December 31, 1997 and 1996 were \$1.3 million and \$1.2 million, respectively. As part of its most recent rate case (see Note 2), PBOP expenses, as determined in accordance with SFAS 106, will be recoverable in base rates. The expenses include the amortization of the previously deferred regulatory asset.

The Company recognized PBOP expenses of \$0.2 million for each of the years ended December 31, 1997, 1996 and 1995. The plan's funded status is as follows:

	YEARS ENDED DECEMBER 31, (THOUSANDS OF DOLLARS)	
	1997	1996
Retirees	\$ 1,679	\$ 1,149
Fully eligible plan participants	803	354
Other active plan participants	1,453	1,543
Accumulated postretirement benefit obligation	3,935	3,046
Plan assets at fair value		
Unrecognized net (loss)	(734)	(47)
Unrecognized prior service cost	157	169
Unrecognized transition obligation	(2,029)	(2,164)
Accrued postretirement benefit obligation	\$ 1,329	\$ 1,004

=====
Net postretirement benefit cost consisted of the following components:

	YEARS ENDED DECEMBER 31, (THOUSANDS OF DOLLARS)	
	1997	1996
Service cost - benefits earned during the year	\$ 116	\$ 101
Interest cost on accumulated postretirement benefit obligation	258	211
Amortization of net loss	41	2
Amortization of prior service cost	(11)	(11)
Amortization of transition obligation	135	135
Regulatory deferral	(325)	(246)
Net postretirement benefit cost	\$ 214	\$ 192

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation for 1997 was 5%, which will remain constant for all future years. A one-percentage point increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation by 14% and the 1997 net postretirement benefit cost by approximately 10%. The assumed discount rates used in determining the accumulated postretirement benefit obligation for 1997 and 1996 were 7.0% and 7.25%, respectively.

STOCK BASED COMPENSATION

The Company maintains a restricted stock plan, under which 30,550 shares of the Company's common stock are held in escrow by the Company for key employees. Such stock is subject to an agreement requiring forfeiture by the employee in the event of termination of employment within five years of the grant other than as a result of retirement, death or disability.

In May 1997, 100,000 additional shares were allocated to the restricted stock plan, bringing the maximum number of shares authorized for grant under this plan to 160,000 shares. 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 compensation expenses were \$0.1 million for each of the years 1997, 1996 and 1995.

As permitted by SFAS No. 123, "Accounting for Stock Based Compensation," (SFAS No. 123) the Company elected to account for its stock based compensation under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Had compensation costs for the Company's restricted stock plan been determined based on methodology prescribed in SFAS No. 123, there would have been no effect on its results of operations or cash flows.

NOTE 5 - COMMITMENTS AND CONTINGENT LIABILITIES

SERVICE AGREEMENT - On May 19, 1995, Middlesex and USA jointly entered into a five-year contract with the City of South Amboy to operate and maintain the City's 2,600 customer water system. The Contract, which is subject to renewal for three future five-year periods, is expected to produce a total of approximately \$1.5 million in revenues for the first five years. Revenues recognized under the contract in 1997, 1996 and 1995 were \$0.4 million, \$0.3 million and less than \$0.1 million, respectively.

WATER SUPPLY - Middlesex has an agreement with the Elizabethtown Water Company for the purchase of treated water. This agreement, which expires December 31, 2005, provides for the minimum purchase of 3 million gallons daily (mgd) of treated water with provisions for additional purchases. The 1997, 1996 and 1995 costs under this agreement were \$1.5 million, \$1.3 million and \$0.9 million, respectively.

Middlesex also has an agreement with the New Jersey Water Supply Authority (NJWSA), which expires November 1, 2013, and provides for the minimum purchase of 20 mgd of untreated water from the Delaware and Raritan Canal and the Raritan River. In addition, the Company has a supplemental one-year agreement for an additional 5 mgd through April 30, 1998. This agreement is renewable on an annual basis. The total costs were \$1.7 million for each of the years 1997, 1996 and 1995.

CONSTRUCTION - The Company plans to spend approximately \$28.3 million, \$23.1 million and \$5.8 million in 1998, 1999 and 2000, respectively, on its construction program. 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.

LITIGATION - A local entity and its owner have filed a negligence claim against Middlesex, for which Middlesex is insured, with a claim for punitive damages which is not insured. Their action alleges financial losses arising out of improper water pressure and service. An amendment to the claim alleges damages resulting from some poor quality water. Other parties who dealt with the claimants have joined the matter. Without taking a position on the negligence claim, Middlesex does not believe that the claim for punitive damages will prevail. While the outcome of this case is not presently determinable, management believes that the final resolution will not have a significant effect on Middlesex's financial position or results of operations or cash flows.

A fire at a warehouse within Middlesex's service territory has resulted in multiple party claims for unspecified amounts. This has led the warehouse operator and certain tenants to assert claims against Middlesex for alleged insufficient water pressure and supply, which claims are not covered by the Company's insurance. Middlesex believes it has substantial defenses to the claims.

NOTE 6 - LINES OF CREDIT AND NOTES PAYABLE

At December 31, 1997, 1996 and 1995 Middlesex had \$20 million in committed lines of credit, with no amounts outstanding. To accommodate the funding requirements of the Company's 1998 capital program, in December 1997 the Board of Directors authorized an increase in the amount of

20 ===== CONTINUING THE EXCELLENCE =====

lines of credit to \$30 million.

As part of the service agreement with the City of South Amboy, on June 1, 1995, USA made an investment in the form of a \$1.25 million loan. At December 31, 1997, a balance of \$1.24 million was included in nonutility assets on the Consolidated Balance Sheet. Principal repayment and the interest rate are based upon renewal provisions of the contract.

NOTE 7 - RELATED PARTY TRANSACTIONS

During 1997, 1996 and 1995, Middlesex had transactions with a construction company in which a member of the Board of Directors has a financial interest. Major construction transactions were awarded on the basis of competitive bids approved by the Board of Directors (with the interested Director abstaining) and amounted to \$0.7 million, \$0.9 million and \$0.9 million for the years 1997, 1996 and 1995, respectively. These amounts included \$0.1 million due the construction company at December 31, 1997, 1996 and 1995.

NOTE 8 - QUARTERLY OPERATING RESULTS - UNAUDITED

Quarterly operating results for 1997 and 1996 are as follows:

1997	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER	YEAR

	(THOUSANDS OF DOLLARS EXCEPT PER SHARE DATA)				
Operating Revenues	\$ 9,336	\$ 9,937	\$10,968	\$10,053	\$40,294
Operating Income	2,023	2,120	2,682	1,943	8,768
Net Income	1,282	1,311	1,894	1,374	5,861
Basic and Diluted Earnings per Common Share	\$ 0.30	\$ 0.30	\$ 0.43	\$ 0.30	\$ 1.33

1996	-----				
Operating Revenues	\$ 9,247	\$ 9,632	\$ 9,934	\$ 9,212	\$38,025
Operating Income	1,968	2,110	2,288	1,856	8,222
Net Income	1,153	1,307	1,494	1,213	5,167
Basic and Diluted Earnings per Common Share	\$ 0.27	\$ 0.30	\$ 0.35	\$ 0.28	\$ 1.20

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

NOTE 9 - CAPITALIZATION

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

COMMON STOCK

There are 900,000 shares of common stock authorized under the Dividend Reinvestment and Common Stock Purchase Plan (DRP). The cumulative number of shares issued under the DRP at December 31, 1997 is 747,291. In October 1997, the Board of Directors approved a 5% discount on common stock sold to participants of the Company's DRP between the period of January 2, 1998 and June 1, 1998. The offer is limited to the first 100,000 shares sold during the discount period.

During 1997, 1996 and 1995, 64,148 shares (\$1.1 million), 67,977 shares (\$1.2 million) and 106,138 shares (\$1.7 million) of common stock were issued under DRP and the restricted stock plan, respectively.

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, 1997, no restrictions were placed on common dividends.

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. In May 1997, the number of authorized Preferred Stock, without par value, was increased from 69,418 shares to 150,000 shares. At December 31, 1997, 45,898 shares of Preferred Stock presently authorized were outstanding and no dividends were in arrears.

The conversion feature of the no par \$7.00 Cumulative and Convertible Preferred Stock, which was effective in 1997, allows the security holders to exchange one convertible preferred share for six 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 six shares of the Company's common stock for each share of convertible stock redeemed.

Both the \$4.75 Series and the \$7.00 Series are redeemable at the option of the Company, and in November 1994, an offer to purchase the \$7.00 Series at the stated redemption price of \$100 per share was extended to all holders of this stock. At December 31, 1995, the Company had purchased and retired 1,483 shares

of the \$7.00 Series. Since there was no premium associated with the redemption, approval from the BPU was not required.

On July 31, 1997, Middlesex issued 20,000 shares of no par \$8.00 Cumulative and Convertible Preferred Stock convertible into 137,140 shares of Middlesex's common stock for 100% of the common stock of Public. The preferred shares are convertible at the election of the security holder within seven years from the date of issuance at the common equivalent rate of 6.857 shares of common stock for each share of preferred. The same conversion feature is granted to Middlesex after seven years from the date of issuance.

The acquisition of Public, a 2,500 customer water system located in Sussex County Delaware is being accounted for under the purchase method of accounting. The acquisition price, representing the value of the convertible preferred stock issued, was \$2.3 million and resulted in an acquisition adjustment of \$1.0 million. The acquisition adjustment will be amortized over the remaining composite life of Public's utility plant.

The supplemental unaudited pro forma information as though

===== CONTINUING THE EXCELLENCE ===== 21

the acquisition occurred as of January 1, 1996 was as follows:

	1997	1996
Operating Revenues	\$ 40,984,570	\$ 38,643,019
Net Income	5,863,880	5,246,734
Basic Earnings Per Share	\$ 1.31	\$ 1.18
Diluted Earnings Per Share	\$ 1.30	\$ 1.18

EARNINGS PER SHARE

In February 1997, the FASB issued SFAS No. 128, "Earnings Per Share," (SFAS No. 128). This statement simplifies the standards for computing and presenting earnings per share (EPS) previously found in APB Opinion No. 15, "Earnings Per Share," and makes them comparable to international EPS standards. SFAS No. 128 requires dual presentation of basic and diluted earnings per share on the face of the income statement. Under SFAS No. 128, basic EPS is computed based upon the weighted average number of common shares, and dilutive EPS is based upon the weighted average number of common shares and potential dilutive common shares that could occur if actions were taken with respect to convertible securities or other obligations to issue common stock. At December 31, 1997, the Company adopted SFAS No. 128, with no impact resulting on EPS as computed in the periods presented.

LONG-TERM DEBT

On September 13, 1995, Tidewater received approval from the Delaware PSC to borrow up to \$3.5 million through an amortizing secured term bank loan. The terms of the loan agreement provide for a maximum term of twenty five years from the conclusion of the drawdown period with the interest rate fixed on the date of any advance by the bank. In October 1995, Tidewater received an initial \$2.5 million at a rate of 8.02%. In the fourth quarter of 1996, the remaining \$1.0 million was borrowed resulting in an overall interest rate of 8.05% on the total amount borrowed. Monthly principal payments began in January 1997 with the final payment due in December 2021. The proceeds of the loan were used to fund capital expenditures.

As part of the asset purchase by the Pinelands Companies, promissory notes of \$1.2 million were issued. On November 21, 1996, the Company purchased, at a nominal discount, and retired the promissory notes. The purchase was funded with internally generated cash.

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. At December 31, 1997 and 1996, the carrying and fair market value of the Company's bonds were as follows:

	(THOUSANDS OF DOLLARS)			
	1997		1996	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
First Mortgage Bonds	\$49,500	\$49,800	\$49,500	\$46,900

For other long-term debt for which there were no quoted market price, it was not practicable to estimate their fair value. The carrying amounts of these instruments at December 31, 1997 and 1996 were \$3.5 million. Customer advances for construction have a carrying value of \$10.8 million and \$9.0 million at December 31, 1997 and 1996, 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.

INDEPENDENT AUDITORS' REPORT
MIDDLESEX WATER COMPANY

DELOITTE &
TOUCHE LLP
[logo]

We have audited the accompanying consolidated balance sheets and consolidated statements of capital stock and long-term debt of Middlesex Water Company and its subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income, retained earnings and of cash flows for each of the three years in the period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Middlesex Water Company and its subsidiaries at December 31, 1997 and 1996 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
February 13, 1998

=====

CONSOLIDATED SELECTED FINANCIAL DATA
(THOUSANDS OF DOLLARS EXCEPT PER SHARE DATA)

	1997	1996	1995	1994	1993	1992	1987
OPERATING REVENUES	\$ 40,294	\$ 38,025	\$ 37,847	\$ 36,122	\$ 35,479	\$ 30,861	\$ 22,370
OPERATING EXPENSES:							
Operations and Maintenance	19,538	18,778	17,916	16,911	16,753	14,715	10,423
Depreciation	3,071	2,929	2,814	2,650	2,376	1,961	1,251
Taxes, other than Income Taxes	5,782	5,569	5,479	5,343	5,222	4,620	3,554
Income Taxes	3,135	2,526	2,975	2,766	3,072	2,351	1,973
TOTAL OPERATING EXPENSES	31,526	29,802	29,184	27,670	27,423	23,647	17,201
OPERATING INCOME	8,768	8,223	8,663	8,452	8,056	7,214	5,169
OTHER INCOME	379	225	156	87	438	515	156
INCOME BEFORE INTEREST CHARGES	9,147	8,448	8,819	8,539	8,494	7,729	5,325
INTEREST CHARGES	3,286	3,280	3,115	3,044	3,014	3,267	2,127
NET INCOME	5,861	5,168	5,704	5,495	5,480	4,462	3,198
PREFERRED STOCK DIVIDEND REQUIREMENTS	226	159	159	188	256	186	180
EARNINGS APPLICABLE TO COMMON STOCK	\$ 5,635	\$ 5,009	\$ 5,545	\$ 5,307	\$ 5,224	\$ 4,276	\$ 3,018
BASIC/DILUTED EARNINGS PER SHARE OF COMMON STOCK	\$ 1.33	\$ 1.20	\$ 1.36	\$ 1.33	\$ 1.33	\$ 1.20	\$ 1.01
Average Number of Shares							
Outstanding for the Year	4,234,082	4,169,334	4,078,890	4,003,393	3,924,363	3,568,499	3,002,756
Dividends Declared and Paid	\$ 1.12 1/2	\$ 1.10 1/2	\$ 1.08 1/2	\$ 1.05 3/4	\$ 1.01 1/4	\$ 0.97	\$ 0.83 3/4
Total Assets	\$ 159,761	\$ 148,660	\$ 144,822	\$ 132,413	\$ 125,676	\$ 113,843	\$ 76,142
Redeemable Preferred Stock	\$ --	\$ --	\$ --	\$ --	\$ 1,158	\$ 1,224	\$ 1,554
Long-term Debt	\$ 52,918	\$ 52,961	\$ 52,960	\$ 49,500	\$ 37,000	\$ 42,550	\$ 29,350

STATISTICAL SUMMARY

	1997	1996	1995	1994	1993	1992	1991
REVENUES (THOUSANDS OF DOLLARS):							
Residential	\$ 16,291	\$ 15,091	\$ 15,202	\$ 14,306	\$ 14,042	\$ 11,733	\$ 10,083
Commercial	4,576	4,347	4,393	4,282	4,170	3,616	2,891
Industrial	6,631	6,621	6,669	6,598	6,481	6,044	4,848
Fire Protection	4,662	4,637	4,543	4,352	4,312	3,905	3,141
Contract Sales	7,380	6,778	6,658	6,322	6,232	5,477	1,338
Other	754	551	382	262	242	86	69
Total Revenues	\$ 40,294	\$ 38,025	\$ 37,847	\$ 36,122	\$ 35,479	\$ 30,861	\$ 22,370
CAPITALIZATION RATIOS:							
Long-term Debt	49%	51%	51%	51%	50%	49%	50%
Preferred Stock	5	3	3	3	4	5	5
Common Stock Equity	46	46	46	46	46	46	45
TOTAL RATIOS	100%	100%	100%	100%	100%	100%	100%
Book Value of Common Stock	\$ 12.00	\$ 11.70	\$ 11.52	\$ 11.13	\$ 10.77	\$ 10.29	\$ 8.66
Meters in Service	67,673	63,775	61,332	58,371	57,318	56,340	51,226
Population Served (Retail)	271,000	255,000	245,000	233,000	229,000	225,000	205,000
Miles of Main	1,149	1,067	1,035	972	947	920	639
Fire Hydrants	4,850	4,750	4,690	4,558	4,503	4,445	3,915
Pumpage (million gallons)	17,476	16,791	17,380	16,794	16,789	15,174	11,576

Independent Auditors' Consent

We consent to the incorporation by reference in Registration Statement No. 33-11717 of Middlesex Water Company on Form S-3 of our report dated February 13, 1998 incorporated by reference in this Annual Report on Form 10-K of Middlesex Water Company and its subsidiaries for the year ended December 31, 1997.

/s/DELOITTE & TOUCHE LLP

DELOITTE & TOUCHE LLP
Parsippany, New Jersey
March 27, 1998

UT
0000066004
MIDDLESEX WATER COMPANY

	12-MOS	
	DEC-31-1997	
	DEC-31-1997	
	PER-BOOK	
135,070,736		
2,038,568		
10,050,939		
12,600,530		
	0	
	159,760,773	
	31,138,484	
	0	
51,225,549	20,087,065	
	0	
	4,995,635	
	52,918,245	
	564,701	
	0	
	0	
42,708		
	0	
	0	
	0	
50,013,935		
159,760,773		
40,294,118		
3,135,118		
28,390,931		
31,526,049		
8,768,069		
	378,936	
9,147,005		
3,286,099		
	5,860,906	
	226,027	
5,634,879		
	4,761,327	
	2,885,250	
	12,626,712	
		1.33
		1.33