

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

OR

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

For the transition period from _____ to _____

Commission File Number 0-422

MIDDLESEX WATER COMPANY

(Exact name of registrant as specified in its charter)

New Jersey
(State of incorporation)

22-1114430
(IRS employer identification no.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

Yes No

The number of shares outstanding of each of the registrant's classes of common stock, as of November 5, 2008: Common Stock, No Par Value: 13,390,680 shares outstanding.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Operating Revenues	\$ 25,653	\$ 24,135	\$ 69,543	\$ 64,868
Operating Expenses:				
Operations	11,579	10,915	33,299	31,250
Maintenance	995	1,046	3,102	3,060
Depreciation	1,987	1,887	5,872	5,607
Other Taxes	2,708	2,558	7,715	7,221
Total Operating Expenses	17,269	16,406	49,988	47,138
Operating Income	8,384	7,729	19,555	17,730
Other Income (Expense):				
Allowance for Funds Used During Construction	180	168	445	421
Other Income	150	100	668	608
Other Expense	(12)	(9)	(169)	(21)
Total Other Income, net	318	259	944	1,008
Interest Charges	1,838	1,734	5,161	4,816
Income before Income Taxes	6,864	6,254	15,338	13,922
Income Taxes	2,149	2,096	5,054	4,680
Net Income	4,715	4,158	10,284	9,242
Preferred Stock Dividend Requirements	52	62	166	186
Earnings Applicable to Common Stock	\$ 4,663	\$ 4,096	\$ 10,118	\$ 9,056
Earnings per share of Common Stock:				
Basic	\$ 0.35	\$ 0.31	\$ 0.76	\$ 0.69
Diluted	\$ 0.35	\$ 0.31	\$ 0.75	\$ 0.68
Average Number of Common Shares Outstanding :				
Basic	13,350	13,206	13,291	13,191
Diluted	13,617	13,537	13,601	13,522
Cash Dividends Paid per Common Share	\$ 0.1750	\$ 0.1725	\$ 0.5250	\$ 0.5175

See Notes to Condensed Consolidated Financial Statements.

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

ASSETS		September 30,	December 31,
		2008	2007
UTILITY PLANT:	Water Production	\$ 104,381	\$ 98,942
	Transmission and Distribution	278,310	264,939
	General	26,765	24,874
	Construction Work in Progress	13,162	9,833
	TOTAL	422,618	398,588
	Less Accumulated Depreciation	69,331	64,736
	UTILITY PLANT - NET	353,287	333,852
CURRENT ASSETS:	Cash and Cash Equivalents	3,143	2,029
	Accounts Receivable, net	10,472	8,227
	Unbilled Revenues	5,769	4,609
	Materials and Supplies (at average cost)	1,437	1,205
	Prepayments	1,693	1,363
	TOTAL CURRENT ASSETS	22,514	17,433
DEFERRED CHARGES AND OTHER ASSETS:	Unamortized Debt Expense	2,895	2,884
	Preliminary Survey and Investigation Charges	6,419	5,283
	Regulatory Assets	15,506	16,090
	Operations Contracts Fees Receivable	3,736	4,184
	Restricted Cash	5,095	6,418
	Non-utility Assets - Net	6,387	6,183
	Other	386	348
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	40,424	41,390
	TOTAL ASSETS	\$ 416,225	\$ 392,675
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	\$ 107,342	\$ 105,668
	Retained Earnings	30,582	27,441
	Accumulated Other Comprehensive Income, net of tax	-	69
	TOTAL COMMON EQUITY	137,924	133,178
	Preferred Stock	3,375	3,958
	Long-term Debt	115,009	131,615
	TOTAL CAPITALIZATION	256,308	268,751
CURRENT LIABILITIES:	Current Portion of Long-term Debt	17,928	2,723
	Notes Payable	22,200	6,250
	Accounts Payable	5,599	6,477
	Accrued Taxes	8,739	7,611
	Accrued Interest	1,043	1,916
	Unearned Revenues and Advanced Service Fees	823	758
	Other	1,556	1,274
	TOTAL CURRENT LIABILITIES	57,888	27,009
COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)			
DEFERRED CREDITS AND OTHER LIABILITIES:	Customer Advances for Construction	21,763	21,758
	Accumulated Deferred Investment Tax Credits	1,402	1,461
	Accumulated Deferred Income Taxes	18,839	17,940
	Employee Benefit Plans	12,249	13,333
	Regulatory Liability - Cost of Utility Plant Removal	6,103	5,726
	Other	763	459
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	61,119	60,677
CONTRIBUTIONS IN AID OF CONSTRUCTION		40,910	36,238
	TOTAL CAPITALIZATION AND LIABILITIES	\$ 416,225	\$ 392,675

See Notes to Condensed Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 10,284	\$ 9,242
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	6,523	6,149
Provision for Deferred Income Taxes and ITC	860	628
Equity Portion of AFUDC	(230)	(201)
Cash Surrender Value of Life Insurance	307	(275)
Gain on Disposal of Equity Investments	(86)	-
Gain on Sale of Real Estate	-	(212)
Changes in Assets and Liabilities:		
Accounts Receivable	(1,798)	(2,939)
Unbilled Revenues	(1,160)	(1,619)
Materials & Supplies	(232)	(32)
Prepayments	(330)	(416)
Other Assets	(457)	(447)
Accounts Payable	57	1,183
Accrued Taxes	1,163	1,368
Accrued Interest	(873)	(976)
Employee Benefit Plans	(653)	270
Unearned Revenue & Advanced Service Fees	65	157
Other Liabilities	(348)	266
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,092	12,146
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility Plant Expenditures, Including AFUDC of \$215 in 2008 and \$220 in 2007	(20,568)	(15,579)
Restricted Cash	1,363	2,420
Proceeds from Real Estate Dispositions	-	273
Preliminary Survey & Investigation Charges	(1,137)	(1,838)
NET CASH USED IN INVESTING ACTIVITIES	(20,342)	(14,724)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of Long-term Debt	(2,480)	(2,214)
Proceeds from Issuance of Long-term Debt	1,079	132
Net Short-term Bank Borrowings	15,950	6,550
Deferred Debt Issuance Expenses	(158)	(30)
Common Stock Issuance Expense	-	(15)
Restricted Cash	(40)	(11)
Proceeds from Issuance of Common Stock	1,091	1,060
Payment of Common Dividends	(6,977)	(6,825)
Payment of Preferred Dividends	(166)	(186)
Construction Advances and Contributions-Net	65	957
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	8,364	(582)
NET CHANGES IN CASH AND CASH EQUIVALENTS	1,114	(3,160)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,029	5,826
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 3,143	\$ 2,666
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:		
Utility Plant received as Construction Advances and Contributions	\$ 4,612	\$ 3,717
Transfer of Equity Investment to Employee Retirement Benefit Plans	\$ 132	\$ -
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for:		
Interest	\$ 6,026	\$ 5,795
Interest Capitalized	\$ (215)	\$ (220)
Income Taxes	\$ 3,515	\$ 2,882

See Notes to Condensed Consolidated Financial Statements.

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

	September 30, 2008	December 31, 2007
Common Stock, No Par Value:		
Shares Authorized - 40,000		
Shares Outstanding - 2008 - 13,364		
2007 - 13,246	\$ 107,342	\$ 105,668
Retained Earnings	30,582	27,441
Accumulated Other Comprehensive Income (Loss), net of tax	-	69
TOTAL COMMON EQUITY	\$ 137,924	\$ 133,178
Cumulative Preference Stock, No Par Value:		
Shares Authorized - 100		
Shares Outstanding - None		
Cumulative Preferred Stock, No Par Value:		
Shares Authorized - 139		
Shares Outstanding - 2008 - 32		
2007 - 37		
Convertible:		
Shares Outstanding, \$7.00 Series - 14	1,457	1,457
Shares Outstanding, \$8.00 Series - 2008 - 7		
2007 - 12	816	1,399
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1	102	102
Shares Outstanding, \$4.75 Series - 10	1,000	1,000
TOTAL PREFERRED STOCK	\$ 3,375	\$ 3,958
Long-term Debt		
8.05%, Amortizing Secured Note, due December 20, 2021	\$ 2,723	\$ 2,800
6.25%, Amortizing Secured Note, due May 22, 2028	8,260	8,575
6.44%, Amortizing Secured Note, due August 25, 2030	6,137	6,347
4.46%, Amortizing Secured Note, due September 19, 2031	6,417	6,627
4.22%, State Revolving Trust Note, due December 31, 2022	674	691
3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025	3,661	3,168
3.49%, State Revolving Trust Note, due January 25, 2027	670	603
4.03%, State Revolving Trust Note, due December 1, 2026	957	974
3.64%, State Revolving Trust Note, due July 1, 2028	348	-
3.64%, State Revolving Trust Note, due January 1, 2028	140	-
4.00% to 5.00%, State Revolving Trust Bond, due September 1, 2021	660	695
0.00%, State Revolving Fund Bond, due September 1, 2021	500	538
First Mortgage Bonds:		
5.20%, Series S, due October 1, 2022	12,000	12,000
5.25%, Series T, due October 1, 2023	6,500	6,500
6.40%, Series U, due February 1, 2009	15,000	15,000
5.25%, Series V, due February 1, 2029	10,000	10,000
5.35%, Series W, due February 1, 2038	23,000	23,000
0.00%, Series X, due September 1, 2018	538	591
4.25% to 4.63%, Series Y, due September 1, 2018	710	765
0.00%, Series Z, due September 1, 2019	1,230	1,342
5.25% to 5.75%, Series AA, due September 1, 2019	1,675	1,785
0.00%, Series BB, due September 1, 2021	1,566	1,685
4.00% to 5.00%, Series CC, due September 1, 2021	1,895	1,995
5.10%, Series DD, due January 1, 2032	6,000	6,000
0.00%, Series EE, due September 1, 2024	6,693	7,112
3.00% to 5.50%, Series FF, due September 1, 2024	8,025	8,385
0.00%, Series GG, due September 1, 2026	1,619	1,710
4.00% to 5.00%, Series HH, due August 1, 2026	1,880	1,950
0.00%, Series II, due August 1, 2027	1,709	1,750
3.40% to 5.00%, Series JJ, due August 1, 2027	1,750	1,750
SUBTOTAL LONG-TERM DEBT	132,937	134,338
Less: Current Portion of Long-term Debt	(17,928)	(2,723)
TOTAL LONG-TERM DEBT	\$ 115,009	\$ 131,615

See Notes to Condensed Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

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

The consolidated notes within the 2007 Form 10-K are applicable to these financial statements and, in the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (including normal recurring accruals) to present fairly the financial position as of September 30, 2008, the results of operations for the three month and nine month periods ended September 30, 2008 and 2007, and cash flows for the nine month periods ended September 30, 2008 and 2007. Information included in the Condensed Consolidated Balance Sheet as of December 31, 2007, has been derived from the Company's audited financial statements for the year ended December 31, 2007.

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

Recent Accounting Pronouncements – In October 2008, the FASB issued FSP SFAS No. 157-3, “Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active” (FSP 157-3), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to the Company's September 30, 2008 financial statements. The application of the provisions of FSP 157-3 did not materially affect the Company's financial statements as of and for the periods ended September 30, 2008.

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

FASB statement No. 141 (R) “Business Combinations” was issued in December of 2007. This Statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The Statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of

the beginning of a company's fiscal year beginning after December 15, 2008. This new pronouncement will impact the Company's accounting for business combinations completed beginning January 1, 2009.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This Statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." This FSP clarifies that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. This FSP is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

Note 2 – Rate Matters

On April 29, 2008 Pinelands Water and Pinelands Wastewater filed with the New Jersey Board of Public Utilities (BPU) for base rate increases of 19.8% and 22.9%, respectively. These combined increase requests represent \$0.3 million of additional revenues needed to cover higher operations and maintenance costs of those systems. We cannot predict whether the BPU will ultimately approve, deny, or reduce the amount of our requests.

Effective January 1, 2008, Tidewater received approval from the Delaware Public Service Commission (PSC) to increase their Distribution System Improvement Charge (DSIC) from 0.17% to 1.62%. The DSIC increase is expected to generate additional annual revenue of approximately \$0.2 million.

Effective July 1, 2008, Tidewater received approval from the PSC to further increase their DSIC from 1.62% to 2.94%. The DSIC increase is designed to generate additional annual revenue of approximately \$0.2 million.

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2008. The increase cannot exceed the lesser of the regional Consumer Price Index or 3%. The contracted rate schedule is set to expire on December 31, 2009.

Note 3 – Capitalization

Common Stock –During the nine months ended September 30, 2008, there were 48,637 common shares (approximately \$0.9 million) issued under the Company's Dividend Reinvestment and Common Stock Purchase Plan (DRP).

Preferred Stock -In July 2008 5,000 shares of \$8.00 Series Convertible Preferred Stock was converted into 68,570 shares of Common Stock.

Long-term Debt –Middlesex received approval from the BPU to issue up to \$4.0 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust under the New Jersey State Revolving Fund

(SRF) program. The Company expects to complete the transaction in November 2008. Proceeds from this financing will be used for the ongoing main cleaning and lining project in 2009.

Long-term Debt decreased \$15.0 million during 2008 for First Mortgage Bond Series U, which matures on February 1, 2009. There was an equal and offsetting increase in the Current Portion of Long-term Debt for the Series U bond.

Note 4 – Earnings Per Share

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

(In Thousands Except per Share Amounts)
Three Months Ended September 30,

Basic:	2008	Shares	2007	Shares
Net Income	\$ 4,715	13,350	\$ 4,158	13,206
Preferred Dividend	(52)		(62)	
Earnings Applicable to Common Stock	\$ 4,663	13,350	\$ 4,096	13,206
Basic EPS	\$ 0.35		\$ 0.31	
Diluted:				
Earnings Applicable to Common Stock	\$ 4,663	13,350	\$ 4,096	13,206
\$7.00 Series Preferred Dividend	24	167	24	167
\$8.00 Series Preferred Dividend	14	100	24	164
Adjusted Earnings Applicable to Common Stock	\$ 4,701	13,617	\$ 4,144	13,537
Diluted EPS	\$ 0.35		\$ 0.31	

Nine Months Ended September 30,

Basic:	2008	Shares	2007	Shares
Net Income	\$ 10,284	13,291	\$ 9,242	13,191
Preferred Dividend	(166)		(186)	
Earnings Applicable to Common Stock	\$ 10,118	13,291	\$ 9,056	13,191
Basic EPS	\$ 0.76		\$ 0.69	
Diluted:				
Earnings Applicable to Common Stock	\$ 10,118	13,291	\$ 9,056	13,191
\$7.00 Series Preferred Dividend	73	167	73	167
\$8.00 Series Preferred Dividend	52	143	72	164
Adjusted Earnings Applicable to Common Stock	\$ 10,243	13,601	\$ 9,201	13,522
Diluted EPS	\$ 0.75		\$ 0.68	

Note 5 – Business Segment Data

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

Operations by Segments:	(In Thousands)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues:				
Regulated	\$ 23,191	\$ 21,906	\$ 62,151	\$ 58,239
Non – Regulated	2,654	2,399	7,745	6,956
Inter-segment Elimination	(192)	(170)	(353)	(327)
Consolidated Revenues	\$ 25,653	\$ 24,135	\$ 69,543	\$ 64,868
Operating Income:				
Regulated	\$ 7,886	\$ 7,384	\$ 18,122	\$ 16,806
Non – Regulated	498	345	1,433	924
Consolidated Operating Income	\$ 8,384	\$ 7,729	\$ 19,555	\$ 17,730
Net Income:				
Regulated	\$ 4,392	\$ 3,959	\$ 9,353	\$ 8,739
Non – Regulated	323	199	931	503
Consolidated Net Income	\$ 4,715	\$ 4,158	\$ 10,284	\$ 9,242
Capital Expenditures:				
Regulated	\$ 6,703	\$ 6,724	\$ 19,987	\$ 15,273
Non – Regulated	326	81	581	306
Total Capital Expenditures	\$ 7,029	\$ 6,805	\$ 20,568	\$ 15,579
Assets:				
Regulated	\$ 409,829	\$ 387,931		
Non – Regulated	10,741	8,157		
Inter-segment Elimination	(4,345)	(3,413)		
Consolidated Assets	\$ 416,225	\$ 392,675		

Note 6 – Short-term Borrowings

As of September 30, 2008, the Company has established lines of credit aggregating \$36.0 million. At September 30, 2008, the outstanding borrowings under these credit lines were \$22.2 million at a weighted average interest rate of 3.73%.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were \$20.9 million and \$3.7 million at 3.59% and 6.70% for the three months ended September 30, 2008 and 2007, respectively. The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were \$13.8 million and \$1.3 million at 3.90% and 6.69% for the nine months ended September 30, 2008 and 2007, respectively.

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

Note 7 – Commitments and Contingent Liabilities

Guarantees - - USA-PA operates the City of Perth Amboy, New Jersey (Perth Amboy) water and wastewater systems under contract through June 30, 2018. The agreement was effected under New Jersey's Water Supply Public/Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act. Under the agreement, USA-PA receives a fixed fee and in addition, a variable fee based on increased system billing. Scheduled fixed fee payments for 2008 are \$8.0 million. The fixed fees will increase over the term of the contract to \$10.2 million per year.

In connection with the agreement, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately \$68.0 million in three series of bonds. Middlesex guaranteed one of those series of bonds, designated the Series C Serial Bonds, in the principal amount of approximately \$26.3 million. Perth Amboy guaranteed the two other series of bonds. The Series C Serial Bonds have various maturity dates with the final maturity date on September 1, 2015. As of September 30, 2008, approximately \$21.4 million of the Series C Serial Bonds remained outstanding.

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

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

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

Purchased water costs are shown below:

	(In Thousands)			
	Three Months Ended, September 30.		Nine Months Ended, September 30.	
	2008	2007	2008	2007
Purchased Water				
Treated	\$ 539	\$ 569	\$ 1,588	\$ 1,568
Untreated	618	602	1,739	1,730
Total Costs	<u>\$ 1,157</u>	<u>\$ 1,171</u>	<u>\$ 3,327</u>	<u>\$ 3,298</u>

Construction – The Company expects to spend approximately \$28.5 million on its construction program in 2008.

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

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

Note 8 – Employee Retirement Benefit Plans

Pension – The Company has a noncontributory defined benefit pension plan, which covers all employees with more than 1,000 hours of service hired before April 1, 2007. Employees hired after March 31, 2007 are not eligible to participate in this plan, but do participate in a defined contribution plan that provides an annual contribution at the discretion of the Company based upon a percentage of the participants' compensation. In order to be eligible for an annual contribution, the eligible employee must be employed by the Company on December 31st of the year to which the award pertains.

During the second quarter the Company contributed \$0.1 million in equity securities to the plan. During the third quarter the Company contributed \$2.1 million of cash to the plan. No further contributions are anticipated to be made in 2008. The Company also maintains an unfunded supplemental retirement benefit plan for certain active and retired company officers and currently pays \$0.3 million in annual benefits to the retired participants.

Postretirement Benefits Other Than Pensions – The Company maintains a postretirement benefit plan other than pensions for substantially all of its retired employees and active employees hired before April 1, 2007. Employees hired after March 31, 2007 are not eligible to participate in this plan. Coverage includes healthcare and life insurance. Retiree contributions are dependent on credited years of service. The Company contributed

\$0.3 million of cash to the plan during the third quarter and contributed \$1.0 million of cash to the plan on October 9, 2008. The Company expects to contribute an additional \$0.3 million during the fourth quarter.

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

	(In Thousands)			
	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	Three Months Ended September 30,			
	2008	2007	2008	2007
Service Cost	\$ 312	\$ 324	\$ 194	\$ 205
Interest Cost	488	452	252	224
Expected Return on Assets	(484)	(455)	(145)	(120)
Amortization of Unrecognized Losses	-	19	72	84
Amortization of Unrecognized Prior Service Cost	2	2	-	-
Amortization of Transition Obligation	-	-	34	34
Net Periodic Benefit Cost	\$ 318	\$ 342	\$ 407	\$ 427

	(In Thousands)			
	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	Nine Months Ended September 30,			
	2008	2007	2008	2007
Service Cost	\$ 936	\$ 972	\$ 581	\$ 616
Interest Cost	1,463	1,356	757	671
Expected Return on Assets	(1,453)	(1,364)	(436)	(361)
Amortization of Unrecognized Losses	-	56	216	253
Amortization of Unrecognized Prior Service Cost	7	7	-	-
Amortization of Transition Obligation	-	-	101	101
Net Periodic Benefit Cost	\$ 953	\$ 1,027	\$ 1,219	\$ 1,280

Note 9 – Stock Based Compensation

The Company maintains an escrow account for 71,253 shares of the Company's common stock which were awarded under the 1997 Restricted Stock Plan, which has expired. Such stock is subject to an agreement requiring forfeiture by the employee in the event of termination of employment within five years of the award other than as a result of retirement, death, disability or change in control. The Company received shareholders approval of a stock-based compensation plan called the 2008 Restricted Stock Plan at its May 21, 2008 annual meeting of shareholders. The Company received approval from the BPU for the plan on May 9, 2008. The maximum number of shares authorized for grant under the 2008 Restricted Stock Plan is 300,000 shares.

The Company had also filed a petition with the BPU requesting approval of a stock-based compensation plan for non-employee members of the Board of Directors called the Director Stock Compensation Plan. The Company received shareholder approval for the new plan at its May 21, 2008 annual meeting of shareholders.

The Company received approval from the BPU for the plan on July 30, 2008. The maximum number of shares authorized for grant under the plan is 100,000 shares.

The Company recognizes compensation expense at fair value for its restricted stock awards in accordance with SFAS 123(R), "Shared Based Payment". Compensation expense is determined by the market value of the stock on the date of the award and is being amortized over a five-year period. Compensation expense for the three months ended September 30, 2008 and 2007 was \$0.1 million. Compensation expense for the nine months ended September 30, 2008 and 2007 was \$0.2 million, respectively. Total unearned compensation related to restricted stock was \$0.6 million at September 30, 2008 and 2007, respectively.

Note 10 – Comprehensive Income

Comprehensive income was as follows:

	(In Thousands)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net Income	\$ 4,715	\$ 4,158	\$ 10,284	\$ 9,242
Other Comprehensive Income (Loss):				
Change in Value of Equity Investments, Net of Income Tax	---	(6)	(12)	(21)
Less: Adjustment for Gain Included in Net Income	---	---	(57)	---
Other Comprehensive Income (Loss)	---	(6)	(69)	(21)
Comprehensive Income	<u>\$ 4,715</u>	<u>\$ 4,152</u>	<u>\$ 10,215</u>	<u>\$ 9,221</u>

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

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of the Company included elsewhere herein and with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Forward-Looking Statements

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

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

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

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

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

For an additional discussion of factors that may affect the Company's business and results of operations, see Item 1A. - Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Overview

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

Our New Jersey water utility system (the Middlesex System) provides water services to approximately 59,600 retail, commercial and fire service customers, primarily in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey with a total population of approximately 303,000. Through our subsidiary, USA-PA, we operate the water supply system and wastewater collection system for the City of Perth Amboy, New Jersey. Pinelands Water and Pinelands Wastewater provide water and wastewater services to residents in Southampton Township, New Jersey.

Tidewater and Southern Shores provide water services to approximately 32,100 retail customers in New Castle, Kent, and Sussex Counties, Delaware. Our TESI subsidiary provides regulated wastewater service to approximately 1,500 residential retail customers. White Marsh serves approximately 5,700 customers under unregulated operating contracts with various owners of small water and wastewater systems in Kent and Sussex Counties.

USA provides customers both inside and outside of our service territories a water service line maintenance program called LineCareSM. We offer a similar program for wastewater service lines called LineCare+SM.

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

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

We are seeking to increase customer growth outside our existing service territories, primarily in the mid-Atlantic region. The business opportunities we are looking to develop are both regulated and non-regulated.

We incur costs in connection with the preliminary surveying and investigation (PSI) of potential water and wastewater projects. We cannot guarantee we will successfully obtain any of these projects. Non-regulated project PSI costs are expensed as incurred and regulated project PSI costs are deferred until the project is acquired or abandoned. Abandoned project costs are expensed when identified.

Recent Developments

Rate Matters

On April 29, 2008 Pinelands Water and Pinelands Wastewater filed with the New Jersey Board of Public Utilities (BPU) for base rate increases of 19.8% and 22.9%, respectively. These combined increase requests represent \$0.3 million of additional revenues needed to cover higher operations and maintenance costs of those companies. We cannot predict whether the BPU will ultimately approve, deny, or reduce the amount of our requests.

Effective January 1, 2008, Tidewater received approval from the Delaware Public Service Commission (PSC) to increase their Distribution System Improvement Charge (DSIC) from 0.17% to 1.62%. The DSIC increase is designed to generate additional annual revenue of approximately \$0.2 million.

Effective July 1, 2008, Tidewater received approval from the PSC to further increase their DSIC from 1.62% to 2.94%. The DSIC increase is designed to generate additional annual revenue of approximately \$0.2 million.

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2008. The increase cannot exceed the lesser of the regional Consumer Price Index or 3%. The contracted rate schedule is set to expire on December 31, 2009.

New Service Territory

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

Operating Results by Segment

The Company has two operating segments, Regulated and Non-Regulated. Our Regulated segment contributed 90% of total revenues and 93% of net income for the nine months ended September 30, 2008 and 90% of total revenues and 95% of net income for the nine months ended September 30, 2007. The discussion of the Company's results of operations is on a consolidated basis, and includes significant factors by subsidiary. The segments in the tables included below consist of the following companies: Regulated-Middlesex, Tidewater, Pinelands, Southern Shores, and TESI; Non-Regulated- USA, USA-PA, and White Marsh.

Results of Operations – Three Months Ended September 30, 2008

	(In Thousands)					
	Three Months Ended September 30,					
	2008			2007		
	<u>Regulated</u>	Non- <u>Regulated</u>	<u>Total</u>	<u>Regulated</u>	Non- <u>Regulated</u>	<u>Total</u>
Revenues	\$ 23,191	\$ 2,462	\$ 25,653	\$ 21,906	\$ 2,229	\$ 24,135
Operations and maintenance expenses	10,704	1,870	12,574	10,173	1,788	11,961
Depreciation expense	1,955	32	1,987	1,854	33	1,887
Other taxes	2,646	62	2,708	2,495	63	2,558
Operating income	7,886	498	8,384	7,384	345	7,729
Other income	223	95	318	259	--	259
Interest expense	1,780	58	1,838	1,707	27	1,734
Income taxes	1,937	212	2,149	1,977	119	2,096
Net income	\$ 4,392	\$ 323	\$ 4,715	\$ 3,959	\$ 199	\$ 4,158

Operating revenues for the three months ended September 30, 2008 increased \$1.5 million, or 6.3%, from the same period in 2007. Revenues in our Middlesex system increased \$1.4 million as a result of a 9.1% base rate increase implemented on October 26, 2007. Middlesex revenues decreased by \$0.3 million due to lower consumption by our customers in 2008. Revenues improved \$0.3 million in our Tidewater system, of which \$0.2 million was the result of the cumulative 2.94% of DSIC rate increases that were in effect during 3rd Quarter 2008 versus the same period in 2007. Customer growth contributed \$0.2 million to the increase. Fees charged for initial connection to our Delaware Water system were \$0.1 million lower in 2008 as new residential and commercial development has slowed in our Delaware service territories. USA-PA's fees for managing the Perth Amboy water and wastewater systems were \$0.1 million higher than the same period in 2007 due mostly to higher pass-through charges. There was an equal and offsetting amount of higher expenses connected with this management contract. Revenues from non-regulated contract operations in Delaware increased \$0.1 million due to growth in contract customers and increased sales of additional services. Revenue for all other operations decreased by \$0.1 million.

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

Operation and maintenance expenses for the three months ended September 30, 2008 increased \$0.6 million or 5.1%. Operating costs in New Jersey were \$0.2 million higher due to increased water production costs for electric power, chemicals, and disposal of residuals. Maintenance costs decreased \$0.1 million compared to the same period in 2007 due to reduced restoration and repair costs for service lines in our Middlesex system. An additional \$0.2 million of expense was recognized for employee benefits due to market fluctuations in the cash surrender value of life insurance policies. Administrative costs for our Delaware operations increased \$0.1 million, as we continued to support the increased customer base. The costs to operate our TESI regulated wastewater

facilities in Delaware increased \$0.1 million due to an increased number of wastewater treatment facilities in operation in Delaware. All other expense categories increased \$0.1 million.

Depreciation expense increased \$0.1 million, or 5.3%, primarily as a result of a higher level of utility plant in service since September 30, 2007.

Other taxes increased \$0.2 million, generally reflecting additional taxes on higher gross revenues in our Middlesex system.

Total Other Income, net increased \$0.1 million, primarily due to a higher level of interest income on Operations Contracts Receivables.

Interest expense increased \$0.1 million commensurate with higher short-term borrowings compared to the prior year period. Lower interest rates reduced the level of the interest expense increase. The weighted average interest rate for the quarter was more than 3% lower than for the quarter ended September 30, 2007.

Income taxes increased \$0.1 million as a result of increased operating income as compared to the prior year.

Net income increased 13.4% from \$4.2 million to \$4.7 million. Basic and diluted earnings per share grew 12.6% to \$0.35 for the three months ended September 30, 2008 compared to \$0.31 for the same period in 2007.

Results of Operations – Nine Months Ended September 30, 2008

	(In Thousands)					
	Nine Months Ended September 30,					
	2008			2007		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$ 62,151	\$ 7,392	\$ 69,543	\$ 58,239	\$ 6,629	\$ 64,868
Operations and maintenance expenses	30,710	5,691	36,401	28,884	5,426	34,310
Depreciation expense	5,782	90	5,872	5,510	97	5,607
Other taxes	7,537	178	7,715	7,039	182	7,221
Operating income	18,122	1,433	19,555	16,806	924	17,730
Other income	640	304	944	1,008	---	1,008
Interest expense	4,978	183	5,161	4,738	78	4,816
Income taxes	4,431	623	5,054	4,337	343	4,680
Net income	\$ 9,353	\$ 931	\$ 10,284	\$ 8,739	\$ 503	\$ 9,242

Operating revenues for the nine months ended September 30, 2008 increased \$4.7 million or 7.2% from the same period in 2007. Revenues in our Middlesex system increased \$3.8 million as a result of a 9.1% base rate increase implemented on October 26, 2007. Middlesex revenues decreased \$0.7 million due to lower consumption by our customers during 2008. Water sales improved \$1.0 million in our Delaware water systems, of which \$0.7 million was a result of an additional 12% base rate increase that was granted to Tidewater on February 28, 2007, and DSIC rate increases of 1.62% and 2.94% that went into effect January 1, 2008 and July 1, 2008, respectively. Fees charged to new customers for initial connection to our Delaware water systems were down \$0.4 million for the reasons described above. USA-PA's fees for managing the Perth Amboy water and wastewater systems were \$0.4 million higher than the same period in 2007 due mostly to higher pass-through

charges. Revenues from our regulated wastewater operations in Delaware increased \$0.3 million due to customer growth. All other operations accounted for \$0.3 million of additional revenues.

Operation and maintenance expenses increased \$2.1 million or 6.1%. Water Production costs increased \$0.5 million due to higher costs for water, electric power, chemicals, and disposal of residuals. Labor and benefits costs increased \$0.8 million, which includes \$0.5 million recognized for employee benefits due to market fluctuations in the cash surrender value of life insurance policies. The costs to operate our TESI regulated wastewater facilities in Delaware increased \$0.4 million due to acquisition of the Milton, Delaware municipal wastewater system during 2007 and an increased number of wastewater treatment facilities in operation in Delaware. Operating costs for USA-PA increased \$0.3 million due to higher pass-through charges. All other expense categories increased \$0.1 million.

Depreciation expense increased \$0.3 million or 4.7% due to the higher level of utility plant in service.

Other taxes increased \$0.5 million, generally reflecting additional taxes on higher gross revenues in our Middlesex system.

Total Other Income, net decreased \$0.1 million. Other income increased \$0.2 million for interest income from our contract operations for the City of Perth Amboy. Other expense of \$0.1 million was incurred for costs associated with business development activities in Delaware, Maryland and Virginia.

Interest expense increased \$0.3 million commensurate with higher short-term borrowings compared to the prior year period. Lower interest rates reduced the level of the interest expense increase. The weighted average interest rate for the year was almost 3.0% lower than for the year ended September 30, 2007.

Income taxes increased \$0.4 million as a result of increased operating income as compared to the prior year.

Net income increased \$1.0 million or 11.3%. Basic earnings per share increased 10.9% to \$0.76 for the nine months ended September 30, 2008 compared to \$0.69 for the same period in 2007. Diluted earnings per share were \$0.75 and \$0.68 for nine months ended September 30, 2008 and 2007, respectively.

Liquidity and Capital Resources

Cash flows from operations are largely dependent on three factors: the impact of weather on water sales, adequate and timely rate increases and customer growth. The effect of those factors on net income is discussed in the Results of Operations. For the nine months ended September 30, 2008, cash flows from operating activities were \$13.1 million, an increase of \$1.0 million from the prior year. The increase is attributable to higher earnings, higher depreciation expense and changes in the cash surrender value of life insurance policies. Offsetting some of the increase was a decrease in Accounts Payable due to the timing of payments. The \$13.1 million of net cash flow from operations enabled us to fund 64% of our utility plant expenditures internally for the period, with the remainder funded with proceeds from requisitions under the Delaware and New Jersey State Revolving Fund (SRF) program loans and short-term borrowings.

The capital spending program for 2008 is currently estimated to be \$28.5 million which is lower by \$8.4 million than the amount previously reported in our 2007 Annual Report on Form 10-K. This decrease is due primarily to the slowing of new residential and commercial development in our Delaware service territories. Through September 30, 2008, we have expended \$20.6 million. For the remainder of 2008 we expect to incur \$7.9 million of costs. We expect to spend an additional \$3.6 million for additions and improvements to our

Delaware water systems; \$0.8 million for infrastructure additions for our Delaware wastewater systems; \$1.4 million towards implementation of a Company-wide information system upgrade; and \$1.0 million for the RENEW program to complete the cleaning and cement lining of approximately nine miles of unlined water mains in the Middlesex system. There remains a total of approximately 112 miles of unlined mains in the 730-mile Middlesex system. The capital program also includes an additional \$1.1 million to be incurred over the remainder of 2008 for scheduled upgrades to our existing systems in New Jersey for mains, service lines, meters, hydrants and other infrastructure needs.

To fund our capital program in 2008, we continue to utilize internally generated funds, funds available under existing New Jersey SRF program loans (remaining balance available, \$2.5 million) and Delaware SRF program loans (remaining balance available, \$2.0 million). These programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks. If needed, we will also borrow funds through \$36.0 million of available lines of credit with several financial institutions. As of September 30, 2008, \$22.2 million was outstanding against the lines of credit.

We periodically issue shares of common stock in connection with our dividend reinvestment and stock purchase plan (DRP). From time to time, we may issue additional equity to reduce short-term indebtedness, fund our capital program and for other general corporate purposes.

We currently project we will expend between \$61.6 million and \$79.5 million for capital projects in 2009 and 2010 combined. The exact amount is dependent on customer growth, residential housing sales and project scheduling. In particular, Middlesex had filed a prudence review application with the BPU for a proposed major transmission pipeline designed to strengthen its existing transmission network and provide further system reliability. Initial estimates to construct the pipeline are \$26.2 million. A settlement amongst the parties in the prudence review was approved by the BPU on October 23, 2008. As part of the settlement, it was agreed to that the pipeline was not necessary and prudent at this time. The parties further agreed that it would be effective utility management and proper long-term planning for the Company to proceed with the procurement of easements along the agreed upon pipeline route in anticipation of a need for the project as customer demand for water increases in the South River Basin portion of our customer base.

We have a \$15.0 million first mortgage bond (Series U) that will be maturing on February 1, 2009. It is our intention to refund and refinance Series U with a long-term first mortgage bond. The timing and terms of this refinancing are dependent on financial market conditions and other identified capital needs at that time.

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

In addition to the effect of weather conditions on revenues, increases in certain operating costs will impact our liquidity and capital resources. We received rate relief for Middlesex in October 2007, for Tidewater in January 2008 and July 2008, and for Southern Shores on January 1, 2008. Changes in operating costs and timing of capital projects will have an impact on revenues, earnings, and cash flows and will also impact the timing of filings for future rate increases.

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

Item 3. Quantitative and Qualitative Disclosures of Market Risk

The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our capital program is partially financed with fixed rate, long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our Amortizing Secured Notes and First Mortgage Bonds, which have final maturity dates ranging from 2009 to 2038. Over the next twelve months, approximately \$17.8 million of the current portion of twenty-one existing long-term debt instruments will mature. Applying a hypothetical change in the rate of interest of 10% on those borrowings would not have a material effect on earnings.

Item 4. Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted by the Company's Chief Executive Officer along with the Company's Chief Financial Officer. Based upon that evaluation, which included consideration of the remediation of disclosure controls and procedures for Long-term Debt and the Current Portion of Long-term Debt discussed below, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Report.

On August 1, 2008 and subsequent to the issuance of the Company's Form 10-Q for the quarterly period ended March 31, 2008, management determined that the previously filed unaudited Condensed Consolidated Balance Sheets and Condensed Consolidated Statement of Capital Stock and Long-term Debt needed to be restated to correct the classification of debt maturing in less than one year. The Company implemented additional procedures and controls related to the evaluation and review of maturity dates for Long-term Debt to ensure proper classification of debt maturing in less than one year to the Current Portion of Long-term Debt in the future. A restated Form 10-Q/A for the quarterly period ended March 31, 2008 was submitted on August 6, 2008.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, the Quarterly Report on Form 10-Q/A filed for the period ended March 31, 2008, and the Quarterly Report on Form 10-Q filed for the period ended June 30, 2008. Note 7 to the unaudited Condensed Consolidated Financial Statements for the period ended September 30, 2008, included in Part I of this Quarterly Report on Form 10-Q, is hereby incorporated by reference.

Item 1A. Risk Factors

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

Except as described above, information about risk factors for the nine months ended September 30, 2008 does not differ materially from those set forth in Part I, Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

None

Item 5. Other Information

None.

Item 6. Exhibits

- [31](#) Section 302 Certification by Dennis W. Doll pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
- [31.1](#) Section 302 Certification by A. Bruce O'Connor pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
- [32](#) Section 906 Certification by Dennis W. Doll pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- [32.1](#) Section 906 Certification by A. Bruce O'Connor pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

MIDDLESEX WATER
COMPANY

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

Date: November 6, 2008

**SECTION 302 CERTIFICATION PURSUANT TO RULES 13a-14
AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Dennis W. Doll, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Middlesex Water Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Dennis W. Doll

Dennis W. Doll
Chief Executive Officer

Date: November 6, 2008

**SECTION 302 CERTIFICATION PURSUANT TO RULES 13a-14
AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934**

I, A. Bruce O'Connor, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Middlesex Water Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ A. Bruce O'Connor
A. Bruce O'Connor
Chief Financial Officer

Date: November 6, 2008

SECTION 906 CERTIFICATION PURSUANT TO 18 U.S.C. §1350

I, Dennis W. Doll, hereby certify that, to the best of my knowledge, the periodic report being filed herewith containing financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) and that information contained in said periodic report fairly presents, in all material respects, the financial condition and results of operations of Middlesex Water Company for the period covered by said periodic report.

/s/ Dennis W. Doll
Dennis W. Doll
Chief Executive Officer

Date: November 6, 2008

A signed original of this written statement required by Section 906 has been provided to Middlesex Water Company and will be retained by Middlesex Water Company and furnished to the Securities and Exchange Commission or its staff upon request.

SECTION 906 CERTIFICATION PURSUANT TO 18 U.S.C. §1350

I, A. Bruce O'Connor, hereby certify that, to the best of my knowledge, the periodic report being filed herewith containing financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) and that information contained in said periodic report fairly presents, in all material respects, the financial condition and results of operations of Middlesex Water Company for the period covered by said periodic report.

/s/ A. Bruce O'Connor
A. Bruce O'Connor
Chief Financial Officer

Date: November 6, 2008

A signed original of this written statement required by Section 906 has been provided to Middlesex Water Company and will be retained by Middlesex Water Company and furnished to the Securities and Exchange Commission or its staff upon request.