

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended: September 30, 2001  
-----

Commission File  
No. 0-422  
-----

MIDDLESEX WATER COMPANY  
-----

(Exact name of registrant as specified in its charter)

INCORPORATED IN NEW JERSEY  
-----

22-1114430  
-----

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

1500 RONSON ROAD, ISELIN, NJ  
-----

08830  
-----

(Address of principal executive offices)

(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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that this registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 30 days.

YES      X  
-----

NO  
-----

Indicate the number of shares outstanding of each of the Issuer's classes of common stock, as of the latest practicable date.

Class -----	Outstanding at September 30, 2001 -----
Common Stock, No Par Value	5,071,339

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MIDDLESEX WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2001	2000	2001	2000	2001	2000
	----	----	----	----	----	----
Operating Revenues	\$16,065,400	\$14,386,999	\$43,963,030	\$41,425,330	\$57,014,243	\$54,037,657
Operating Expenses:						
Operations	7,297,815	7,057,061	21,476,488	21,168,803	28,020,909	27,773,107
Maintenance	704,953	692,062	1,985,223	2,008,416	2,532,044	2,718,148
Depreciation	1,264,812	1,170,734	3,773,764	3,477,375	4,997,323	4,599,947
Other Taxes	2,031,965	1,871,767	5,618,902	5,304,962	7,245,901	6,930,956
Federal Income Taxes	1,233,979	900,843	2,697,309	2,191,868	3,142,499	2,618,417
Total Operating Expenses	12,533,524	11,692,467	35,551,686	34,151,424	45,938,676	44,640,575
Operating Income	3,531,876	2,694,532	8,411,344	7,273,906	11,075,567	9,397,082
Other Income:						
Allowance for Funds Used During Construction	38,776	76,277	77,034	121,041	91,154	152,275
Other - Net	29,017	36,700	445,186	111,965	562,013	188,238
Total Other Income	67,793	112,977	522,220	233,006	653,167	340,513
Income Before Interest Charges	3,599,669	2,807,509	8,933,564	7,506,912	11,728,734	9,737,595
Interest Charges	1,226,153	1,270,066	3,758,319	3,694,872	5,060,469	4,890,303
Net Income	2,373,516	1,537,443	5,175,245	3,812,040	6,668,265	4,847,292
Preferred Stock Dividend Requirements	63,697	63,697	191,090	191,090	254,786	254,786
Earnings Applicable to Common Stock	\$ 2,309,819	\$ 1,473,746	\$ 4,984,155	\$ 3,620,950	\$ 6,413,479	\$ 4,592,506
Earnings per share of Common Stock:						
Basic	\$ 0.46	\$ 0.29	\$ 0.98	\$ 0.72	\$ 1.27	\$ 0.92
Diluted	\$ 0.45	\$ 0.29	\$ 0.98	\$ 0.72	\$ 1.27	\$ 0.92
Average Number of Common Shares Outstanding :						
Basic	5,067,279	5,024,431	5,060,736	5,014,937	5,056,422	5,001,054
Diluted	5,238,849	5,196,001	5,232,306	5,186,507	5,227,992	5,181,804
Cash Dividends Paid per Common Share	\$ 0.31	\$0.30 1/2	\$ 0.93	\$ 0.91 1/2	\$ 1.24	\$ 1.22

See Notes to Consolidated Financial Statements

MIDDLESEX WATER COMPANY  
CONSOLIDATED BALANCE SHEETS

ASSETS AND OTHER DEBITS

	September 30, 2001	December 31, 2000
	-----	-----
	(Unaudited)	
UTILITY PLANT:		
Water Production	\$ 71,499,024	\$ 69,363,626
Transmission and Distribution	139,032,979	136,545,596
General	21,481,274	20,189,182
Construction Work in Progress	3,592,233	1,036,498
	-----	-----
TOTAL	235,605,510	227,134,902
Less Accumulated Depreciation	42,221,506	38,856,591
	-----	-----
UTILITY PLANT-NET	193,384,004	188,278,311
	-----	-----
NONUTILITY ASSETS-NET	2,895,920	2,918,133
	-----	-----
CURRENT ASSETS:		
Cash and Cash Equivalents	2,610,081	2,497,154
Temporary Cash Investments-Restricted	2,602,720	2,819,661
Accounts Receivable (net of allowance for doubtful accounts)	6,959,159	5,282,796
Unbilled Revenues	2,941,399	2,969,043
Materials and Supplies (at average cost)	1,041,532	1,009,956
Prepayments and Other Current Assets	963,152	694,111
	-----	-----
TOTAL CURRENT ASSETS	17,118,043	15,272,721
	-----	-----
DEFERRED CHARGES:		
Unamortized Debt Expense	2,849,846	2,950,276
Preliminary Survey and Investigation Charges	885,140	573,128
Regulatory Assets		
Income Taxes	6,012,748	6,012,748
Post Retirement Costs	977,020	1,041,676
Other	2,034,218	2,352,966
	-----	-----
TOTAL DEFERRED CHARGES	12,758,972	12,930,794
	-----	-----
TOTAL	\$226,156,939	\$219,399,959
	=====	=====

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
LIABILITIES AND OTHER CREDITS

	September 30, 2001	December 31, 2000
	-----	-----
	(Unaudited)	
CAPITALIZATION (see accompanying statements)	\$157,772,351	\$156,807,552
	-----	-----
CURRENT LIABILITIES:		
Current Portion of Long-term Debt	274,883	215,859
Notes Payable	11,700,000	6,050,000
Accounts Payable	1,899,491	2,438,664
Taxes Accrued	7,010,112	6,050,322
Interest Accrued	744,084	1,797,520
Other	1,339,020	1,454,276
	-----	-----
TOTAL CURRENT LIABILITIES	22,967,590	18,006,641
	-----	-----
DEFERRED CREDITS:		
Customer Advances for Construction	10,752,056	11,364,818
Accumulated Deferred Investment Tax Credits	1,952,070	2,011,033
Accumulated Deferred Federal Income Taxes	12,616,612	12,371,473
Employee Benefit Plans	5,176,747	4,658,364
Other	1,064,307	1,203,051
	-----	-----
TOTAL DEFERRED CREDITS	31,561,792	31,608,739
	-----	-----
CONTRIBUTIONS IN AID OF CONSTRUCTION	13,855,206	12,977,027
	-----	-----
TOTAL	\$226,156,939	\$219,399,959
	=====	=====

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY  
CONSOLIDATED STATEMENTS OF CAPITALIZATION AND RETAINED EARNINGS

	September 30, 2001 ----- (Unaudited)	December 31, 2000 -----
<b>CAPITALIZATION:</b>		
Common Stock, No Par Value		
Shares Authorized, 10,000,000		
Shares Outstanding - 2001 - 5,071,339; 2000 - 5,048,534	\$ 49,784,357	\$ 48,838,486
Retained Earnings	22,076,073	21,796,707
	-----	-----
TOTAL COMMON EQUITY	71,860,430	70,635,193
	-----	-----
Cumulative Preference Stock, No Par Value		
Shares Authorized, 100,000; Shares Outstanding, None		
Cumulative Preferred Stock, No Par Value, Shares Authorized - 140,497		
Convertible:		
Shares Outstanding, \$7.00 Series - 14,881	1,562,505	1,562,505
Shares Outstanding, \$8.00 Series - 12,000	1,398,857	1,398,857
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	4,063,062	4,063,062
	-----	-----
Long-term Debt:		
8.05% Amortizing Secured Note, due December 20, 2021	3,278,983	3,320,428
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
5.35%, Series W, due February 1, 2038	23,000,000	23,000,000
0.00%, Series X, due August 1, 2018	917,363	970,667
4.53%, Series Y, due August 1, 2018	1,055,000	1,095,000
0.00%, Series Z, due September 1, 2019	2,022,396	2,089,061
5.25%, Series AA, due September 1, 2019	2,350,000	2,350,000
	-----	-----
SUBTOTAL LONG-TERM DEBT	82,123,742	82,325,156
	-----	-----
Less: Current Portion of Long-term Debt	(274,883)	(215,859)
	-----	-----
TOTAL LONG-TERM DEBT	81,848,859	82,109,297
	-----	-----
TOTAL CAPITALIZATION	\$ 157,772,351	\$ 156,807,552
	=====	=====
	Nine Months Ended September 30, 2001 ----- (Unaudited)	Year Ended December 31, 2000 -----
<b>RETAINED EARNINGS:</b>		
BALANCE AT BEGINNING OF PERIOD	\$ 21,796,707	\$ 22,895,844
Net Income	5,175,245	5,305,060
	-----	-----
TOTAL	26,971,952	28,200,904
	-----	-----
Cash Dividends:		
Cumulative Preferred Stock	191,090	254,786
Common Stock	4,704,789	6,149,411
	-----	-----
TOTAL DEDUCTIONS	4,895,879	6,404,197
	-----	-----
BALANCE AT END OF PERIOD	\$ 22,076,073	\$ 21,796,707
	=====	=====

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Nine Months Ended 2001 ----	September 30, 2000 ----	Twelve Months Ended 2001 ----	September 30, 2000 ----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net Income	\$ 5,175,245	\$ 3,812,040	\$ 6,668,265	\$ 4,847,292
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	4,041,507	3,656,228	5,329,980	4,889,159
Provision for Deferred Income Taxes	245,139	234,750	211,708	242,807
Allowance for Funds Used During Construction	(77,034)	(121,041)	(91,154)	(152,275)
Changes in Current Assets and Liabilities:				
Accounts Receivable	(1,682,305)	(255,123)	(740,433)	161,381
Accounts Payable	(533,231)	(1,126,167)	(360,834)	(257,231)
Accrued Taxes	955,034	1,240,313	406,305	216,124
Accrued Interest	(1,053,436)	(833,498)	(182,888)	245,086
Unbilled Revenues	27,644	(373,899)	60,363	(101,814)
Employee Benefit Plans	518,383	762,753	(242,582)	976,106
Other-Net	(495,110)	(91,138)	(846,549)	382,620
	-----	-----	-----	-----
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>7,121,836</b>	<b>6,905,218</b>	<b>10,212,181</b>	<b>11,449,255</b>
	-----	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Utility Plant Expenditures*	(8,854,026)	(9,932,019)	(12,561,298)	(17,819,025)
Note Receivable	97,500	(28,500)	85,500	2,730,090
Preliminary Survey and Investigation Charges	(312,012)	(41,186)	(371,667)	(123,773)
Other-Net	84,326	40,671	(811,036)	107,751
	-----	-----	-----	-----
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(8,984,212)</b>	<b>(9,961,034)</b>	<b>(13,658,501)</b>	<b>(15,104,957)</b>
	-----	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Redemption of Long-term Debt	(201,414)	(193,149)	(214,622)	(205,224)
Proceeds from Issuance of Long-term Debt	(895)	--	(895)	4,500,000
Short-term Bank Borrowings	5,650,000	4,025,000	5,675,000	5,025,000
Deferred Debt Issuance Expenses	(4,739)	--	(46,356)	(20,404)
Temporary Cash Investments-Restricted	216,941	1,369,073	1,760,034	(1,670,003)
Proceeds from Issuance of Common Stock-Net	945,871	938,177	1,252,666	1,239,187
Payment of Common Dividends	(4,704,789)	(4,586,549)	(6,267,651)	(6,095,166)
Payment of Preferred Dividends	(191,090)	(191,090)	(254,786)	(254,786)
Construction Advances and Contributions-Net	265,417	1,424	676,168	138,283
	-----	-----	-----	-----
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>1,975,302</b>	<b>1,362,886</b>	<b>2,579,558</b>	<b>2,656,887</b>
	-----	-----	-----	-----
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>112,926</b>	<b>(1,692,930)</b>	<b>(866,762)</b>	<b>(998,815)</b>
	-----	-----	-----	-----
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>2,497,154</b>	<b>5,169,772</b>	<b>3,476,842</b>	<b>4,475,657</b>
	-----	-----	-----	-----
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 2,610,080</b>	<b>\$ 3,476,842</b>	<b>\$ 2,610,080</b>	<b>\$ 3,476,842</b>
	=====	=====	=====	=====
* Excludes Allowance for Funds Used During Construction				
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>				
Cash Paid During the Period for:				
Interest (net of amounts capitalized)	\$ 4,477,610	\$ 4,274,374	\$ 4,846,371	\$ 4,317,278
Income Taxes	\$ 1,972,792	\$ 1,101,450	\$ 2,852,792	\$ 2,507,800

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Organization - Middlesex Water Company (Middlesex) is the parent company and sole shareholder of Tidewater Utilities, Inc. (Tidewater), Pinelands Water Company, Pinelands Wastewater Company, Utility Service Affiliates, Inc. (USA), Utility Service Affiliates (Perth Amboy) Inc. (USA-PA) and Bayview Water Company. Southern Shores Water Company, LLC, acquired in August 2001, 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.

The consolidated notes accompanying the 2000 Form 10-K are applicable to this report and, in the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2001 and the results of operations and its cash flows for the periods ended September 30, 2001 and 2000. Information included in the Balance Sheet as of December 31, 2000, has been derived from the Company's audited financial statements included in its annual report on Form 10-K for the year ended December 31, 2000.

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts. The adoption of this statement on January 1, 2001, had no impact on the financial statements.

Note 2 - Regulatory Matters

Base Rate Cases - The New Jersey Board of Public Utilities (BPU) approved an increase in base rates for the following companies:

	Pinelands Water -----	Pinelands Wastewater -----	Middlesex Water -----
Effective Date	August 1, 2001	August 1, 2001	June 6, 2001
Percentage Increase	26.92%	11.81%	8.10%
Revenue Increase	\$ 86,000	\$ 104,000	\$ 3,300,000
Rate Base	\$956,000	\$1,471,000	\$133,013,000
Return on Equity	10.5%	10.5%	10.5%
Rate of Return	9.1%	9.2%	7.95%

### Note 3 - Capitalization

Common Stock - During the three months ended September 30, 2001, 7,582 common shares (\$0.3 million) were issued under the Company's Dividend Reinvestment and Common Stock Purchase Plan. Under the Company's Restricted Stock Plan, 2,450 common shares were returned and cancelled.

Long-term Debt - On November 8, 2001, the Company closed on a BPU approved \$4.79 million, 20 year loan from the State of New Jersey and the New Jersey Environmental Infrastructure Trust (Trust) through the New Jersey State Revolving Fund (SRF). The SRF loan, which is secured by First Mortgage Bonds designated as Series BB and CC, is comprised of a \$2.35 million, zero interest borrowing from the New Jersey Department of Environmental Protection Agency (DEP) and a \$2.44 million borrowing from the Trust, with the interest rate varying from 4.00% to 5.00 % depending on the maturity date. Final maturity for both series of Mortgage Bonds is August 1, 2021. The interest paid to bond holders is exempt from federal and New Jersey income taxes, but is subject to the Alternative Minimum Tax (AMT). The proceeds will be used to fund the 2003 and 2004 capital projects to clean and cement line previously unlined pipes and mains.

On November 8, 2001, Bayview closed on a BPU approved \$1.6 million, 20 year SRF loan. The SRF loan, which is an unsecured promissory note guaranteed by Middlesex, is comprised of a \$0.75 million, zero interest borrowing from the New Jersey Department of Environmental Protection Agency (DEP) and a \$0.85 million borrowing from the Trust, with the interest rate varying from 4.00% to 5.00 % depending on the maturity date. Final maturity for both series of Mortgage Bonds is August 1, 2021. The interest paid to bond holders is exempt from federal and New Jersey incomes taxes, but is subject to the Alternative Minimum Tax (AMT). The proceeds will be used to fund the replacement of the 300 customer water distribution system in Fortesuqe, New Jersey.

On September 17, 2001, Middlesex submitted a petition to the BPU for permission to redeem the \$6.0 million, 7.25% Series R First Mortgage Bonds. Market conditions for long-term interest rates have made it attractive for the Company to refinance these bonds, which were originally issued through the New Jersey Economic Development Authority (EDA) and were scheduled to mature on July 1, 2021. The redemption, which will require a 2% or \$120,000 call premium, will be accomplished by issuing a new series of First Mortgage Bonds through the EDA with an expected maturity date of January 1, 2031. A decision by the BPU is expected during the fourth quarter of 2001.

On August 31, 2001, Tidewater closed on a Delaware Public Service Commission (PSC) approved Delaware SRF loan of \$0.8 million, which is administered by the Delaware Department of Health and Social Services. The Delaware SRF program will allow, but does not obligate, Tidewater to draw down against a General Obligation Note for five specific capital projects. Tidewater will be charged an annual fee, which is a combination of interest charges and administrative fees, of 4.22% on the outstanding principal amount. All unpaid principal and fees must be paid on or before December 31, 2022.



Note 4 - Earnings Per Share

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

	(In Thousands Except for per Share Amounts)											
	Three Months Ended September 30,				Nine Months Ended September 30,				Twelve Months Ended September 30,			
	2001		2000		2001		2000		2001		2000	
Basic:	Income	Shares	Income	Shares	Income	Shares	Income	Shares	Income	Shares	Income	Shares
Net Income	\$2,374	5,068	\$1,537	5,025	\$5,175	5,061	\$3,812	5,015	\$6,668	5,057	\$4,847	5,001
Preferred Dividend	(64)		(64)		(191)		(191)		(255)		(255)	
Earnings Applicable to Common Stock	\$2,310	5,068	\$1,473	5,025	\$4,984	5,061	\$3,621	5,015	\$6,413	5,057	\$4,592	5,001
Basic EPS	\$0.46		\$ 0.29		\$0.98		\$0.72		\$1.27		\$0.92	
Diluted:												
Earnings Applicable to Common Stock	\$2,310	5,068	\$1,473	5,025	\$4,984	5,061	\$3,621	5,015	\$6,413	5,057	\$4,592	5,001
\$7.00 Series Dividend	26	89	26	89	78	89	78	89	104	89	104	89
\$8.00 Series Dividend	24	82	24	82	72	82	72	82	96	82	96	92
Adjusted Earnings Applicable to Common Stock	\$2,360	5,239	\$1,523	5,196	\$5,134	5,232	\$3,771	5,186	\$6,613	5,228	\$4,792	5,182
Diluted EPS	\$0.45		\$0.29		\$0.98		\$0.72		\$1.27		\$0.92	

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. It also operates a regulated wastewater system in New Jersey. The Company is subject to regulations as to its rates, services and other matters by the States of New Jersey and Delaware with respect to utility service within these States. The other segment is the non-regulated contract services for the operation and maintenance of municipal and private water and wastewater systems in New Jersey and Delaware. On January 1, 1999 the Company began operating the water and wastewater systems of the City of Perth Amboy, New Jersey under a service contract. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 to the Consolidated Financial Statements. Inter-segment transactions relating to operational costs are treated as pass through expenses.

Operations by Segments:	Three Months Ended September 30		Nine Months Ended September 30		Twelve Months Ended September 30	
	2001	2000	2001	2000	2001	2000
<b>Revenues:</b>						
Regulated	\$ 14,389	\$ 12,656	\$ 38,858	\$ 36,235	\$ 50,256	\$ 46,902
Non - Regulated	1,685	1,740	5,132	5,217	6,794	7,171
Inter-segment Elimination	(9)	(9)	(27)	(27)	(36)	(36)
Consolidated Revenues	\$ 16,065	\$ 14,387	\$ 43,963	\$ 41,425	\$ 57,014	\$ 54,037
<b>Operating Income:</b>						
Regulated	\$ 3,415	\$ 2,603	\$ 8,137	\$ 6,957	\$ 10,705	\$ 8,758
Non - Regulated	117	92	274	317	371	639
Inter-segment Elimination	--	--	--	--	--	--
Consol. Operating Income	\$ 3,532	\$ 2,695	\$ 8,411	\$ 7,274	\$ 11,076	\$ 9,397
<b>Depreciation/Amortization:</b>						
Regulated	\$ 1,251	\$ 1,156	\$ 3,732	\$ 3,437	\$ 4,940	\$ 4,557
Non - Regulated	14	15	42	40	57	43
Inter-segment Elimination	--	--	--	--	--	--
Consolidated Depreciation/Amortization	\$ 1,265	\$ 1,171	\$ 3,774	\$ 3,477	\$ 4,997	\$ 4,600
<b>Other Income:</b>						
Regulated	\$ 542	\$ 287	\$ 1,396	\$ 891	\$ 1,789	\$ 1,339
Non - Regulated	4	--	59	(3)	65	(3)
Inter-segment Elimination	(478)	(174)	(933)	(655)	(1,201)	(995)
Consolidated Other Income	\$ 68	\$ 113	\$ 522	\$ 233	\$ 653	\$ 341
<b>Interest Expense:</b>						
Regulated	\$ 1,439	\$ 1,437	\$ 4,397	\$ 4,145	\$ 5,899	\$ 5,471
Non - Regulated	14	25	42	69	28	97
Inter-segment Elimination	(227)	(192)	(681)	(519)	(867)	(678)
Consol. Interest Expense	\$ 1,226	\$ 1,270	\$ 3,758	\$ 3,695	\$ 5,060	\$ 4,890
<b>Net Income:</b>						
Regulated	\$ 2,518	\$ 1,453	\$ 5,135	\$ 3,703	\$ 6,595	\$ 4,625
Non - Regulated	107	67	292	245	407	539
Inter-segment Elimination	(251)	17	(252)	(136)	(334)	(317)
Consolidated Net Income	\$ 2,374	\$ 1,537	\$ 5,175	\$ 3,812	\$ 6,668	\$ 4,847
<b>Capital Expenditures:</b>						
Regulated	\$ 5,102	\$ 4,037	\$ 8,769	\$ 9,405	\$ 12,430	\$ 17,280
Non - Regulated	21	7	85	527	131	539
Inter-segment Elimination	--	--	--	--	--	--
Total Capital Expenditures	\$ 5,123	\$ 4,044	\$ 8,854	\$ 9,932	\$ 12,561	\$ 17,819

	As of September 30, 2001	As of December 31, 2000
<b>Assets:</b>		
Regulated	\$252,513	\$236,923
Non - Regulated	3,334	3,034
Inter-segment Elimination	(29,690)	(20,557)
Consolidated Assets	\$226,157	\$219,400

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

Results of Operations - Three Months Ended September 30, 2001

Operating revenues for the three months ended September 30, 2001 were up \$1.7 million or 11.7% from the same period in 2000. Higher base rates in our New Jersey and Delaware service territories provided \$1.4 million of the increase. Increased consumption, mostly in Delaware, generated the balance of the revenue increase.

Operating expenses increased \$0.8 million or 7.2%. Operations and maintenance expenses increased \$0.3 million or 3.3% over the prior period. Depreciation expense increased 8.0% over the same period from last year. Plant improvements of \$12.0 million over the last twelve months plus an increase in the composite depreciation rate for our Delaware utility plant were the primary reasons for the increase of this expense.

Other taxes rose \$0.2 million due to higher revenue related taxes. Federal income taxes rose 37.0%, reflecting a higher amount of current taxable income.

Other income fell less than \$0.1 million due to lower Allowance for Funds Used During Construction (AFUDC).

Net income rebounded in the third quarter and increased by 54.4% to \$2.4 million.

Results of Operations - Nine Months Ended September 30, 2001

Operating revenues for the nine months ended September 30, 2001 were up \$2.5 million or 6.1% from the same period in 2000. Higher base rates in our New Jersey and Delaware service territories provided \$1.7 million of the increase. Increased consumption in our Middlesex and Delaware service areas generated the balance of the revenue increase.

Operating expenses increased \$1.4 million or 4.1% over the same period last year. Operations and maintenance expenses increased slightly over the prior period. Depreciation expense increased 8.5% over the same period from last year. Plant improvements of \$11.0 million over the last twelve months plus an increase in the composite depreciation rate for our Delaware utility plant were the primary reasons for the increase of this expense.

Other taxes rose \$0.3 million due to higher revenue related taxes.

Federal income taxes rose 23.1%, reflecting a higher amount of current taxable income.

Other income rose \$0.3 million due to a one-time gain on the sale of excess land by a small investor owned utility in Southern Delaware. Middlesex is a 23% equity owner of that utility.

Net income increased by 35.8% to \$5.2 million.

## Results of Operations - Twelve Months Ended September 30, 2001

Operating revenues for the twelve months ended September 30, 2001 were up \$3.0 million to \$57.0 million. Higher consumption in all our service territories provided \$1.7 million of additional revenue. Rate increases accounted for \$1.5 million. Service fees from our operations and maintenance contracts fell \$0.4 million due to lower variable fees earned under the City of Perth Amboy contract. These variable fees are based upon consumption revenue growth, which failed to materialize due to unfavorable weather during the comparative period. The \$0.2 million balance of the increase is the result of the customer growth in our Delaware service territory.

Operating expenses increased \$1.3 million or 2.9%. Maintenance costs decreased by \$0.2 million due to a lower number of cold weather related main breaks and a decreased number of emergency repairs at the Delaware mobile home parks systems acquired in January 2000. Depreciation expense increased \$0.4 million or 8.6% as a result of the CJO Plant completion in July 1999, with a cost of approximately \$35.0 million and other utility plant improvements of \$28.3 million since September 30, 1999.

Other taxes increased by \$0.3 million due to higher revenue related taxes. Federal income taxes rose \$0.5 million or 20.0% as a result of the higher amount of taxable income.

Other income rose \$0.3 million due to a one-time gain on the sale of excess land by a small investor owned utility in Southern Delaware. Middlesex is a 23% equity owner of that utility.

Net income increased 37.6% to \$6.7 million. Basic and diluted earnings per share jumped by 38.0% to \$1.27%.

### Capital Resources

The Company's capital program for 2001 is estimated to be \$12.0 million and includes \$6.6 million for water system additions and improvements for our Delaware systems and \$0.8 million for expenditures on the upgrade to the CJO Plant. The capital program also includes \$4.6 million for scheduled upgrades to our existing systems in New Jersey. The scheduled upgrades consist of \$0.8 million for mains, \$0.9 million for service lines, \$0.3 million for meters, \$0.3 million for hydrants, \$0.3 million for computer systems and \$2.0 million for various other items.

### Liquidity

The capital program in Delaware will be financed through a combination of a capital contribution and short-term debt financing from Middlesex, as well as long-term financing through the State Revolving Fund (SRF) in Delaware. Middlesex, Tidewater and Bayview each have secured long-term financing with their respective state agencies for certain capital projects. SRF provides low cost financing for projects that meet certain water quality improvement benchmarks. Most of the proceeds from those loans will be used in 2002 through 2004 with some minor expenditures in 2001. See Note 3 to the Consolidated Financial Statements. Other capital expenditures will be financed through internally generated funds and sale of common stock through the Dividend Reinvestment and Common Stock Purchase Plan (DRP). Capital expenditures of \$ 6.8 million have been incurred in the nine months ended September 30, 2001. The Company will also utilize short-term borrowings through \$28.0 million of available lines of credit it has with three commercial banks for working capital purposes. At September 30, 2001, there was \$11.7 million outstanding against the lines of credit.

## Accounting Standards

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts. The adoption of this statement on January 1, 2001, had no impact on the financial statements.

The FASB issued two new accounting pronouncements. SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 will require business combinations entered into after June 30, 2001 to be accounted for using the purchase method of accounting. Specifically identifiable intangible assets acquired, other than goodwill, will be amortized over their estimated useful economic life. SFAS No. 142 eliminates amortization of goodwill. Goodwill impairment testing will be required at least annually. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized in an entity's statement of financial position at that date, regardless of when those assets were initially recognized.

The FASB issued SFAS No. 143, Assets Retirement Obligation, which the Company is required to adopt January 1, 2003. The Company is currently evaluating the effect of adopting these three new accounting pronouncements.

The FASB also issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which the Company will adopt on January 1, 2002. This Statement replaces SFAS No. 121, which had previously been adopted by Middlesex in 1996. As with SFAS No. 121, the adoption of SFAS No. 144 is not expected to have a significant effect on our results of operations or cash flows.

## Regulatory Matters

On April 10, 2001, Middlesex completed the purchase of the water utility assets and certain trade payables of Fortescue Realty Company. This transaction was effected with the creation of a wholly-owned subsidiary, Bayview Water Company. The first long-term objective for improving service to the 300 customers was to obtain low cost financing through the SRF to fund the replacement of the entire water distribution system. This plan calls for construction to begin in the fourth quarter of 2001. Because of the system replacement, significant rate relief will be required. The Company expects to file a rate increase on or about November 30, 2001.

The Delaware Public Service Commission (PSC) has approved the acquisition of the 2,200 customer Sea Colony, LLC water system. The acquisition cost for this system, which has been renamed as Southern Shores Water, LLC, was approximately \$2.1 million. Because Tidewater has resolved its quality of service issues in Delaware, the PSC removed the 0.75% credit against the Company's allowed return on equity.

On November 13, 2001, Middlesex file a petition with the BPU requesting permission to institute a three-for-two stock split of its Middlesex Water Company no par value Common Stock. A decision is expected within six weeks.

## Outlook

Middlesex and its subsidiaries continue to review operations for cost reductions, without sacrificing service to our customers. Higher revenues from the most recently approved rate increases for Middlesex and the two Pinelands cases should continue to help improve earnings over last year. A return to more typical weather patterns has increased revenues. Similarly, increased usage in Delaware has provided additional revenue as a result of the rate increase and restructured rates. The restructured rates now reflect a greater proportionate charge on the consumption component of the rate. Even with the recent rate increase in Delaware, we are earning less than half of the approved 9.14% rate of return. We are evaluating the timing of additional rate relief request in that jurisdiction. Our latest earnings projections for 2001 are between \$1.22 and \$1.26 per basic share.

## Divestiture

As reported in its September 17, 2001 Form 8-K filing, Middlesex had been in negotiations to sell its Delaware water utility operation to Artesian Resources Corporation. Those negotiations have terminated without an agreement.

## Forward Looking Information

Certain matters discussed in this report on Form 10-Q are "forward-looking statements" intended to qualify for safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. Such statements may address future plans, objectives, expectations and events concerning various matters such as capital expenditures, earnings, litigation, growth potential, rate and other regulatory matters, liquidity, 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.

## Item 3. Quantitative and Qualitative Disclosures of Market Risk

The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate, long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have maturity dates ranging from 2009 to 2038. Over the next twelve months, approximately \$0.3 million of the current portion of four existing long-term debt instruments will mature. Applying a hypothetical change in the rate of interest charged by 10% on those borrowings would not have a material effect on earnings.

PART II. OTHER INFORMATION

- Item 1. Legal Proceedings  
A claim has been made by multiple plaintiffs for damages resulting from personal injury, including death, and property damage alleged to have been caused by the delivery in Delaware of inadequate quality water, and related claims. While the Company has little detail about the claim at this time, we have substantial insurance coverage, which we believe will be sufficient for all claims in this matter other than for punitive damages.
- Item 2. Changes in Securities  
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 and Reports on Form 8-K  
(a) Exhibits: None.  
(b) Reports on Form 8-K: Filed July 9, 2001.  
Filed September 17, 2001.

SIGNATURE

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

MIDDLESEX WATER COMPANY  
(Registrant)

/s/ A. Bruce O'Connor

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A. Bruce O'Connor  
Vice President and Controller

Date: November 14, 2001