

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

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

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)

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

Title of Each Class:
Common Stock, No Par Value

Name of each exchange on which registered:
The NASDAQ Stock Market, LLC

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

None

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

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

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 has submitted and posted on their corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files). Yes No

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

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 aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2010 was \$245,798,155 based on the closing market price of \$15.85 per share.

The number of shares outstanding for each of the registrant's classes of common stock, as of March 4, 2011:
Common Stock, No par Value 15,386,657 shares outstanding

Documents Incorporated by Reference

Proxy Statement to be filed in connection with the Registrant's Annual Meeting of Stockholders to be held on May 24, 2011, which will be filed with the Securities and Exchange Commission within 120 days of the end of our 2010 fiscal year, is incorporated by reference into Part III.

**MIDDLESEX WATER COMPANY
FORM 10-K**

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Forward-Looking Statements

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

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

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

- the effects of general economic conditions;
- increases in competition in the markets served by the Company;
- the ability of the Company to control operating expenses and to achieve efficiencies in its operations;
- the availability of adequate supplies of water;
- actions taken by government regulators, including decisions on rate increase requests;
- new or additional water quality standards;
- weather variations and other natural phenomena;
- the existence of financially attractive acquisition candidates and the risks involved in pursuing those acquisitions;
- acts of war or terrorism;
- significant changes in the pace of housing development in Delaware;
- the availability and cost of capital resources;
- the ability to translate Preliminary Survey & Investigation charges into viable projects; and
- other factors discussed elsewhere in this annual 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 prospectus or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

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

PART I

Item 1. Business.

Overview

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

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

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

Middlesex System

The Middlesex System in New Jersey provides water services to approximately 60,000 retail customers, primarily in eastern Middlesex County, New Jersey and provides water under wholesale contracts to the City of Rahway, Township of Edison, the Boroughs of Highland Park and Sayreville and both the Old Bridge and the Marlboro Township Municipal Utilities Authorities. The Middlesex System treats, stores and distributes water for residential, commercial, industrial and fire prevention purposes. The Middlesex System also provides water treatment and pumping services to the Township of East Brunswick under contract. The Middlesex System produced approximately 64% of our 2010 consolidated operating revenues.

The Middlesex System’s retail customers are located in an area of approximately 55 square miles in Woodbridge Township, the City of South Amboy, the Boroughs of Metuchen and Carteret, portions of the Township of Edison and the Borough of South Plainfield in Middlesex County and, to a minor extent, a portion of the Township of Clark in Union County. Retail customers include a mix of residential customers, large industrial concerns and commercial and light industrial facilities. These customers are located in generally well-developed areas of central New Jersey.

The contract customers of the Middlesex System comprise an area of approximately 146 square miles with a population of approximately 303,000. Contract sales to Edison, Sayreville, Old Bridge, Marlboro and Rahway are supplemental to the existing water systems of these customers. The Middlesex System provides treated surface water under long-term agreements to East Brunswick, Marlboro, Old Bridge and Sayreville consistent with a plan approved by the New Jersey Department of Environmental Protection.

Middlesex provides water service to approximately 300 customers in Cumberland County, New Jersey. This system is referred to as Bayview and is not physically interconnected with the Middlesex System. Bayview produced less than 1% of our 2010 consolidated operating revenues.

Tidewater System

Tidewater, together with its wholly-owned subsidiary, Southern Shores, provides water services to approximately 34,000 retail customers for domestic, commercial and fire protection purposes in over 300 separate community water systems in New Castle, Kent and Sussex Counties, Delaware. White Marsh is an additional wholly-owned subsidiary that is unregulated as to rates and operates water and wastewater systems under contract for approximately 6,000 residential customers. White Marsh also owns the office buildings that Tidewater uses as its central business office campus. The Tidewater System produced approximately 25% of our 2010 consolidated operating revenues.

Utility Service Affiliates-Perth Amboy

USA-PA operates the City of Perth Amboy, New Jersey's water and wastewater systems under a 20-year agreement, which expires in 2018. USA-PA serves approximately 10,500 homes and businesses, most of which are served by both the water and wastewater systems. 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 fixed fees, and may receive variable fees, based on customer revenue growth. Fixed fee revenues increase over the term of the 20-year contract based upon a schedule of rates. USA-PA produced approximately 9% of our 2010 consolidated operating revenues.

In connection with the agreement with Perth Amboy, USA-PA entered into a 20-year subcontract with a wastewater operating company for the operation and maintenance of the Perth Amboy wastewater collection system. The subcontract provides for the sharing of certain fixed and variable fees and operating expenses.

Pinelands System

Pinelands Water provides water services to approximately 2,500 residential customers in Burlington County, New Jersey. Pinelands Water produced less than 1% of our 2010 consolidated operating revenues. Pinelands Water is not physically interconnected with the Middlesex System.

Pinelands Wastewater provides wastewater services to approximately 2,500 residential customers. Under contract, it also services one municipal wastewater system in Burlington County, New Jersey with approximately 200 residential customers. Pinelands Wastewater produced approximately 1% of our 2010 consolidated operating revenues.

Utility Service Affiliates, Inc.

USA provides residential customers in New Jersey and Delaware a water service line and sewer lateral maintenance program called LineCareSM and LineCare+SM, respectively. These are maintenance programs that cover, up to a specified limit, all parts, material and labor required to repair or replace specific elements of the customer's water service line, customer shut-off valve and/or sewer lateral, in the event of a failure. The Company's responsibility for maintenance costs under the programs is subject to annual limits. USA produced less than 1% of our 2010 consolidated operating revenues.

TESI System

TESI provides wastewater services to approximately 1,900 residential retail customers in Delaware. TESI produced less than 1% of our 2010 consolidated operating revenues.

Twin Lakes System

Twin Lakes, acquired in November 2009, provides water services to approximately 120 residential customers in Shohola, Pennsylvania. Twin Lakes produced less than 1% of our 2010 consolidated operating revenues.

Financial Information

Consolidated operating revenues, operating income and net income are as follows:

	(Thousands of Dollars)		
	Years Ended December 31,		
	2010	2009	2008
Operating Revenues	\$ 102,735	\$ 91,243	\$ 91,038
Operating Income	\$ 26,597	\$ 20,161	\$ 24,019
Net Income	\$ 14,330	\$ 9,977	\$ 12,208

Operating revenues were earned from the following sources:

	Years Ended December 31,		
	2010	2009	2008
Residential	45.5%	44.9%	45.1%
Commercial	9.7	9.4	9.6
Industrial	8.7	9.0	9.3
Fire Protection	9.7	10.5	10.4
Contract Sales	14.6	13.1	13.1
Contract Operations	9.7	10.9	10.5
Other	2.1	2.2	2.0
Total	100.0%	100.0%	100.0%

Water Supplies and Contracts

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

Middlesex System

Our Middlesex System, which produced approximately 16.8 billion gallons in 2010, obtains water from surface sources and wells, or groundwater sources. In 2010, surface sources of water provided approximately 74% of the Middlesex System's water supply, groundwater sources provided approximately 19% from 31 wells and the balance was purchased from a non-affiliated water utility. Middlesex System's distribution storage facilities are used to supply water to customers at times of peak demand, outages and emergencies.

The principal source of surface water for the Middlesex System is the Delaware & Raritan Canal, which is owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority. Middlesex is under contract with the New Jersey Water Supply Authority, which expires November 30, 2023.

The contract provides for average purchases of 27 million gallons per day (mgd) of untreated water from the Delaware & Raritan Canal, augmented by the Round Valley/Spruce Run Reservoir System. Surface water is pumped to, and treated at the Middlesex Carl J. Olsen (CJO) Water Treatment Plant. Middlesex also has an agreement with a non-affiliated regulated water utility for the purchase of treated water. This agreement provides for minimum purchase of 3.0 mgd of treated water with provisions for additional purchases.

Tidewater System

Our Tidewater System produced approximately 2.1 billion gallons in 2010 from 162 wells. In 2010, 3 new wells were placed into service and we retired 1 well for the purpose of consolidating production facilities for more cost-efficient operation. Tidewater expects to continue to submit applications to Delaware regulatory authorities for the approval of additional wells as growth, demand and water quality warrant. The Tidewater System does not have a central treatment facility but has several regional, as well as several smaller independent, treatment plants. Several of its water systems in New Castle, Kent and Sussex Counties, Delaware have interconnected transmission systems.

Pinelands System

Water supply to our Pinelands System is derived from four wells which produced approximately 185.3 million gallons in 2010. The pumping capacity of the four wells is 2.2 million gallons per day.

Pinelands Wastewater System

The Pinelands Wastewater System discharges into the South Branch of the Rancocas Creek through a tertiary treatment plant that provides clarification, sedimentation, filtration and disinfection. The total capacity of the plant is 0.5 mgd, and the system treated approximately 107.6 million gallons in 2010.

Bayview System

Water supply to Bayview customers is derived from two wells, which delivered approximately 9.4 million gallons in 2010.

TESI System

The TESI System owns and operates six wastewater treatment systems in Southern Delaware. The treatment plants provide clarification, sedimentation, and disinfection. The combined total treatment capacity of the plants is 0.6 mgd. The TESI System treated approximately 79.5 million gallons in 2010.

Twin Lakes System

Water supply to Twin Lakes' customers is derived from two wells, which delivered approximately 23.8 million gallons in 2010.

Employees

As of December 31, 2010, we had a total of 292 employees. No employees are represented by a union. We believe our employee relations are good. Wages and benefits are reviewed annually and are considered competitive within both the industry and the regions where we operate.

Competition

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

Regulation

Our rates charged to customers for water and wastewater services, the quality of the services we provide and certain other matters are regulated by the following state utility commissions (collectively, the Utility Commissions):

- New Jersey-New Jersey Board of Public Utilities (NJBPU)
- Delaware-Delaware Public Service Commission (DEPSC)
- Pennsylvania-Pennsylvania Public Utilities Commission (PAPUC)

Our USA, USA-PA and White Marsh subsidiaries are not regulated public utilities. However they are subject to environmental regulation with respect to water and wastewater effluent quality.

We are subject to environmental and water quality regulation by the following regulatory agencies (collectively, the Government Environmental Regulatory Agencies):

- United States Environmental Protection Agency (EPA)
- New Jersey Department of Environmental Protection (NJDEP) with respect to operations in New Jersey
- Delaware Department of Natural Resources and Environmental Control (DEDNREC), the Delaware Department of Health and Social Services-Division of Public Health (DEDPH), and the Delaware River Basin Commission (DRBC) with respect to operations in Delaware
- Pennsylvania Department of Environmental Protection (PADEP) with respect to operations in Pennsylvania

In addition, our issuances of equity securities are subject to the prior approval of the NJBPU and require registration with the SEC. Our issuances of long-term debt securities are subject to the prior approval of the appropriate Utility Commissions.

Regulation of Rates and Services

For ratemaking purposes, we account separately for operations in New Jersey, Delaware and Pennsylvania to facilitate independent ratemaking by the applicable Utility Commissions.

In determining our rates, the respective Utility Commissions consider the income, expenses, rate base of property used and useful in providing service to the public and a fair rate of return on investments within their separate jurisdictions. Rate determinations by the respective Utility Commissions do not guarantee particular rates of return to us for our New Jersey, Delaware and Pennsylvania operations. Thus, we may not achieve the rates of return permitted by the Utility Commissions. In addition, there can be no assurance that any future rate increases will be granted or, if granted, that they will be in the amounts requested.

Middlesex Rate Matters

In January 2011, Middlesex filed an application with the NJBPU seeking permission to establish a Purchased Water Adjustment Clause (PWAC) and implement a tariff rate sufficient to recover increased costs of \$0.4 million to purchase untreated water from the New Jersey Water Supply Authority and treated water from a non-affiliated regulated water utility. We cannot predict whether the NJBPU will ultimately approve, deny, or reduce the amount of the request.

In March 2010, a settlement was reached with respect to Middlesex's application with the NJBPU seeking permission to increase its base water rates. The NJBPU granted an increase in annual operating revenues of 13.57%, or \$7.8 million. The base water rate increase request was made to seek recovery of increased costs of operations, chemicals and fuel, electricity, taxes, labor and benefits, decreases in industrial and commercial customer demand patterns, as well as capital investment. The new base water rates are designed to recover these increased costs, as well as provide a return on invested capital in rate base of \$180.3 million based on a return on equity of 10.30%.

Tidewater Rate Matters

A Distribution System Improvement Charge (DSIC) is a DEPSC approved rate-mechanism that allows water utilities to recover investment in non-revenue producing capital improvements to the water system between base rate proceedings. The following summarizes Tidewater's approved DSIC rates from January 1, 2010 through January 1, 2011:

Date	January 1, 2010	July 1, 2010	January 1, 2011
% Increase (Decrease)	1.11%	(0.04)%	0.27%
Cumulative %	1.11%	1.07%	1.34%

Future Rate Filings

Middlesex and several of its subsidiaries are expected to file for rate increases in 2011. There can be no assurances however, that the respective Utility Commissions will approve the anticipated rate increase requests in whole or in part. In addition, the timing of approval of these rate requests is presently not known.

Water and Wastewater Quality and Environmental Regulations

Government Environmental Regulatory Agencies regulate our operations in New Jersey, Delaware and Pennsylvania with respect to water supply, treatment and distribution systems and the quality of the water. They also regulate our operations with respect to wastewater collection and treatment.

Regulations relating to water quality require us to perform tests to ensure our water meets state and federal quality requirements. In addition, Government Environmental Regulatory Agencies continuously review current regulations governing the limits of certain organic compounds found in the water as byproducts of the treatment process. We participate in industry-related research to identify the various types of technology that might reduce the level of organic, inorganic and synthetic compounds found in the water. The cost to water companies of complying with the proposed water quality standards depends in part on the limits set in the regulations and on

the method selected to treat the water to the required standards. We regularly test our water to determine compliance with existing government environmental regulatory agencies' primary water quality standards.

Well water treatment in our Middlesex System is by chlorination for disinfection purposes. In addition, at certain locations, air stripping is used for removal of volatile organics removal.

Surface water treatment in our Middlesex System is by conventional treatment; coagulation, sedimentation and filtration. The treatment process includes pH adjustment, chlorination for disinfection, and corrosion control for the distribution system.

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

Well water treatment in the Pinelands, Bayview and Twin Lakes Systems (disinfection only) is performed at individual well sites.

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

Seasonality

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

Management

This table lists information concerning our executive management team:

Name	Age	Principal Position(s)
Dennis W. Doll	52	President, Chief Executive Officer and Chairman of the Board of Directors
A. Bruce O'Connor	52	Vice President and Chief Financial Officer
Richard M. Risoldi	54	Vice President-Operations and Chief Operating Officer
Kenneth J. Quinn	63	Vice President-General Counsel, Secretary and Treasurer
James P. Garrett	64	Vice President-Human Resources
Bernadette M. Sohler	50	Vice President-Corporate Affairs
Gerard L. Esposito	59	President, Tidewater Utilities, Inc.

Dennis W. Doll – Mr. Doll joined the Company in November 2004 as Executive Vice President. He was elected President and Chief Executive Officer and became a Director of Middlesex effective January 1, 2006. In May 2010, he was elected Chairman of the Board of Directors of Middlesex. He is also Chairman for all subsidiaries of Middlesex. Prior to joining the Company, Mr. Doll had been employed in the regulated water utility business since 1985. Mr. Doll is Chairman of the Board of Directors of the New Jersey Utilities Association and is a Director of the National Association of Water Companies and the Water Research Foundation.

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

Richard M. Risoldi – Mr. Risoldi joined the Company in 1989 as Director of Production, responsible for the operation and maintenance of the Company's treatment and pumping facilities. He was appointed Assistant Vice President of Operations in 2003. He was elected Vice President-Subsidiary Operations in May 2004, responsible for regulated and unregulated subsidiary operations and business development. In January 2010, he became Vice President – Operations and Chief Operating Officer. He is a Director of Tidewater Utilities, Inc., Tidewater Environmental Services, Inc., White Marsh Environmental Systems Inc and Utility Service Affiliates (Perth Amboy) Inc. He also serves as Director and President of Pinelands Water Company, Pinelands Wastewater Company, Utility Service Affiliates, Inc. and Twin Lakes Utilities, Inc.

Kenneth J. Quinn – Mr. Quinn joined the Company in 2002 as General Counsel and was elected Assistant Secretary in 2003. In 2004, Mr. Quinn was elected Vice President, Secretary and Treasurer for Middlesex and Secretary and Assistant Treasurer for all subsidiaries of Middlesex. Prior to joining the Company he had been employed in private law practice as well as by two major banking institutions located in New Jersey. He is a member of the New Jersey State Bar Association and its Public Utility Law Section.

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

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

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

Item 1A. Risk Factors.

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

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

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

General economic conditions may materially and adversely affect our financial condition and results of operations.

Recent economic conditions have negatively impacted our customers' water usage demands, particularly the level of water usage demand by our commercial and industrial customers in our Middlesex System. We are unable to determine when these customers' water demands may return to previous levels, or if the decline in demand will continue indefinitely. If water demand by our commercial and industrial customers in our Middlesex System does not return to previous levels, our financial condition and results of operations could be negatively impacted.

Recent economic conditions have also impacted the volume and pace of residential construction in our Delaware markets and in other states where developer-projects are in various stages of completion. The timing and extent of recovery of our engineering and other preliminary survey and investigation (PS&I) charges either from the construction of a project that yields customers or from reimbursements from a developer is dependent upon the timing and extent to which such projects may or may not be further developed or from our ability to collect amounts contractually owed to us. If it is determined that recovery is unlikely, the applicable PS&I costs will be charged against income in the period of determination.

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

Government Environmental Regulatory Agencies regulate our operations in New Jersey, Delaware and Pennsylvania with respect to water supply, treatment and distribution systems and the quality of water. Government Environmental Regulatory Agencies' regulations relating to water quality require us to perform expanded types of testing to ensure that our water meets state and federal water quality requirements. We are subject to EPA regulations under the Federal Safe Drinking Water Act, which include the Lead and Copper Rule, the maximum contaminant levels established for various volatile organic compounds, the Federal Surface Water Treatment Rule and the Total Coliform Rule. There are also similar NJDEP regulations for our New Jersey water systems. The NJDEP, DEDPH and PADEP monitor our activities and review the results of water

quality tests that we perform for adherence to applicable regulations. In addition, Government Environmental Regulatory Agencies are continually reviewing regulations governing the limits of certain organic compounds found in the water as byproducts of treatment.

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

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

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

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

We require financing to fund the ongoing capital program for the improvement of our utility system assets and for planned expansion of those systems. We expect to spend approximately \$66.0 million for capital projects through 2013. We must obtain regulatory approval to sell debt or equity securities to raise money for these projects. If sufficient capital is not available or the cost of capital is too high, or if the regulatory authorities deny a petition of ours to sell debt or equity securities, we may not be able to meet the costs of complying with environmental laws and regulations or the costs of improving and expanding our utility system assets to the level we believe necessary. This might result in the imposition of fines or restrictions on our operations and may curtail our ability to improve upon and expand our utility system assets.

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

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

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

Demand for our water during the warmer months is generally greater than during cooler months due primarily to additional consumption of water in connection with irrigation systems, swimming pools, cooling systems and

other outside water use. Throughout the year, and particularly during typically warmer months, demand may vary with temperature and rainfall levels. In the event that temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the demand for our water may decrease and adversely affect our revenues.

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

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

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

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

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

USA-PA operates and maintains the water and wastewater systems of the City of Perth Amboy, New Jersey under a 20-year contract expiring in 2018. This contract does not protect us against incurring costs in excess of revenues we earn pursuant to the contract. There can be no absolute assurance that we will not experience losses resulting from this contract. Losses under this contract, or our failure or inability to perform, may have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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

Because of the continuing threats to the health and security of the United States of America, we employ procedures to review and modify, as necessary, security measures at our facilities. We provide ongoing training and communications to our employees about threats to our water supply and to their personal safety. Our security measures include protocols regarding delivery and handling of certain chemicals used in our business. We are at risk for terrorist attacks and have incurred, and will continue to incur, costs for security measures to protect our facilities, operations and supplies from such risks.

Our ability to achieve growth in our market area is dependent on the residential building market. Housing starts impact our rate of growth and therefore, may not meet our expectations.

We expect our revenues to increase from customer growth for our regulated water and wastewater operations as a result of anticipated construction and sale of new housing units. Although the residential building market in Delaware has experienced growth in recent years, this growth has slowed due to current economic conditions. If housing starts decline further, or do not increase as we have projected, as a result of economic conditions or otherwise, the timing and extent of our revenue growth may not meet our expectations, our deferred project costs may not produce revenue-generating projects in the timeframes anticipated and our financial results could be negatively impacted.

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

We have paid dividends on our common stock each year since 1912 and have increased the amount of dividends paid each year since 1973. Our earnings, financial condition, capital requirements, applicable regulations and other factors, including the timeliness and adequacy of rate increases, will determine both our ability to pay dividends on common stock and the amount of those dividends. There can be no assurance that we will continue to pay dividends in the future or, if dividends are paid, that they will be in amounts similar to past dividends.

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

Our ability to pay the principal and interest on our indebtedness as it comes due will depend upon our current and future performance. Our performance is affected by many factors, some of which are beyond our control. We believe that our cash generated from operations, and, if necessary, borrowings under our existing credit

facilities will be sufficient to enable us to make our debt payments as they become due. If, however, we do not generate sufficient cash, we may be required to refinance our obligations or sell additional equity, which may be on terms that are not as favorable to us.

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

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

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

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Utility Plant

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

The wastewater utility plant in our systems consist of pumping, treatment, collection mains, general facilities and all appurtenances, including all connecting pipes.

Middlesex System

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

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

The CJO Water Treatment Plant includes chemical storage and chemical feed equipment, two dual rapid mixing basins, four upflow clarifiers which are also called superpulsators, four underground reinforced chlorine contact tanks, twelve rapid filters containing gravel, sand and anthracite for water treatment and a steel washwater tank. The CJO Water Treatment Plant also includes a computerized Supervisory Control and Data Acquisitions system to monitor and control the CJO Water Treatment Plant and the water supply and distribution system in the Middlesex System. There is an on-site State certified laboratory capable of performing bacteriological, chemical, process control and advanced instrumental chemical sampling and analysis. The firm design capacity of the CJO Water Treatment Plant is 45 mgd (60 mgd maximum capacity). The five electric motor-driven, vertical turbine pumps presently installed have an aggregate capacity of 85 mgd.

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

The transmission and distribution system is comprised of 739 miles of mains and includes 23,200 feet of 48-inch reinforced concrete transmission main connecting the CJO Water Treatment Plant to our distribution pipe network and related storage facilities. Also included is a 58,600 foot transmission main and a 38,800 foot transmission main, augmented with a long-term, non-exclusive agreement with the East Brunswick system to transport water to several of our contract customers.

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

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

Tidewater System

The Tidewater System is comprised of 86 production plants that vary in pumping capacity from 26,000 gallons per day to 2.0 mgd. Water is transported to our customers through 613 miles of transmission and distribution mains. Storage facilities include 46 tanks, with an aggregate capacity of 6.0 million gallons. Our Delaware operations are managed from Tidewater's offices in Dover, Delaware. The Delaware office property, located on eleven-acre lot owned by White Marsh, consists of two office buildings totaling approximately 17,000 square feet.

Pinelands System

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

Pinelands Wastewater System

Pinelands Wastewater owns a 12 acre site on which its 0.5 million gallons per day capacity tertiary treatment plant and connecting pipes are located. Its wastewater collection system is comprised of approximately 24 miles of sewer lines.

Bayview System

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

TESI System

The TESI System owns and operates six wastewater treatment systems in Southern Delaware. The treatment plants provide clarification, sedimentation, and disinfection. The combined total capacity of the plants is 0.6 mgd. TESI's wastewater collection system is comprised of approximately 30 miles of sewer lines.

Twin Lakes System

Twin Lakes owns two well sites, which are located in the Township of Shohola, Pike County, Pennsylvania. Water is transported to our customers through 3.7 miles of distribution mains.

USA-PA, USA and White Marsh

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

Item 3. Legal Proceedings.

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

Item 4. Removed and Reserved.

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

The Company's common stock is traded on the NASDAQ Stock Market, LLC, under the symbol MSEX. The following table shows the range of high and low share prices per share for the common stock and the dividend paid to shareholders in such quarter. As of December 31, 2010, there were 1,950 holders of record.

2010	High	Low	Dividend
Fourth Quarter	\$ 19.31	\$ 16.77	\$ 0.1825
Third Quarter	\$ 17.16	\$ 15.48	\$ 0.1800
Second Quarter	\$ 18.70	\$ 14.74	\$ 0.1800
First Quarter	\$ 18.00	\$ 16.16	\$ 0.1800
2009	High	Low	Dividend
Fourth Quarter	\$ 17.91	\$ 14.74	\$ 0.1800
Third Quarter	\$ 15.89	\$ 13.62	\$ 0.1775
Second Quarter	\$ 15.29	\$ 12.61	\$ 0.1775
First Quarter	\$ 17.71	\$ 11.64	\$ 0.1775

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

If four or more quarterly dividends are in arrears, the preferred shareholders, as a class, are entitled to elect two members to the Board of Directors in addition to Directors elected by holders of the common stock. In the event dividends on the preferred stock are in arrears, no dividends may be declared or paid on the common stock of the Company.

In June 2010, the Company sold and issued 1.9 million shares of common stock in a public offering that was priced at \$15.21 per share. The net proceeds of approximately \$27.8 million were used to repay certain of the Company's short-term debt outstanding.

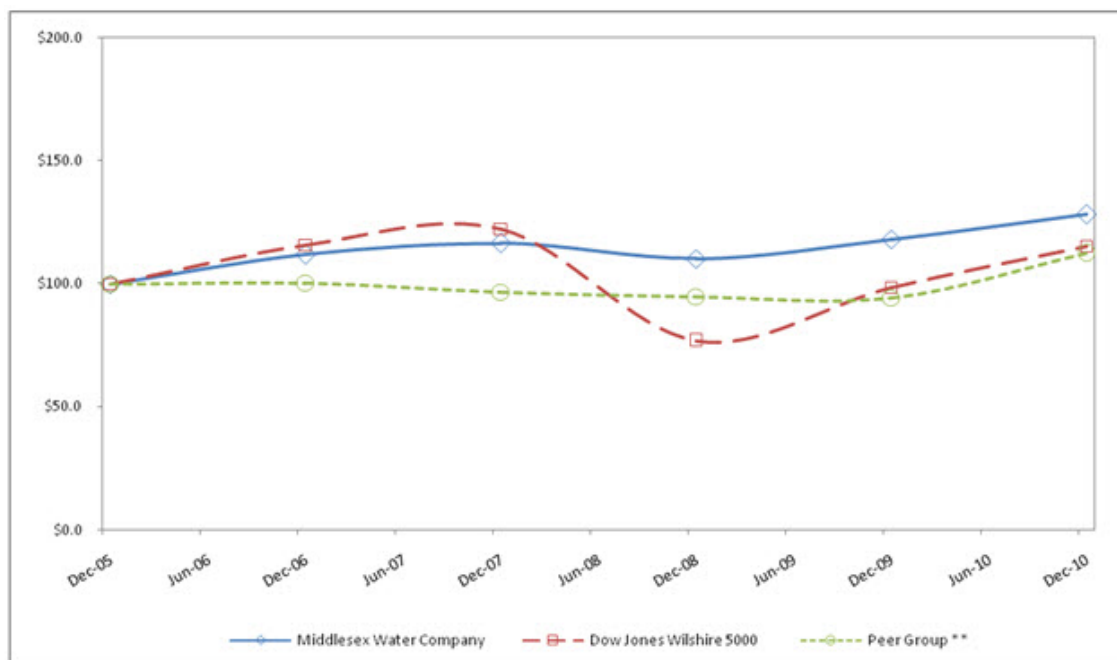
The Company periodically issues shares of common stock in connection with its Dividend Reinvestment and Common Stock Purchase Plan (the DRP). The Company raised approximately \$1.9 million through the issuance of 0.1 million shares under the Plan during 2010.

The Company has a stock compensation plan for its employees (the 2008 Restricted Stock Plan). The Company maintains an escrow account for 0.1 million awarded shares of the Company's common stock for the 2008 Restricted Stock Plan. 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 maximum number of shares authorized for grant under the 2008 Restricted Stock Plan is 0.3 million shares and 0.2 million shares remain available for future awards under the 2008 Restricted Stock Plan.

The Company has a stock compensation plan for its outside directors (the Outside Director Stock Compensation Plan). In 2010, 1,416 shares of common stock were granted and issued to the Company’s outside directors under the Outside Director Stock Compensation Plan. The maximum number of shares authorized for grant under the Outside Director Stock Compensation Plan is 0.1 million and 97,030 shares remain available for future grants under the Outside Director Stock Compensation Plan.

Set forth below is a line graph comparing the yearly change in the cumulative total return (which includes reinvestment of dividends) of a \$100 investment for the Company’s common stock, a peer group of investor-owned water utilities, and the Dow Jones Wilshire 5000 Stock Index for the period of five years commencing December 31, 2005. The Dow Jones Wilshire 5000 Stock Index measures the performance of all U.S. headquartered equity securities with readily available price data.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Middlesex Water Company, The Dow Jones Wilshire 5000 Index and a Peer Group



*\$100 invested on 12/31/05 in stock or index-including reinvestment of dividends.

** Peer group includes American States Water Company, American Water Works, Inc., Aqua America Inc., Artesian Resources Corp., California Water Service Company, Connecticut Water Service, Inc., Pennichuck Corp., SJW Corp., York Water Company and Middlesex.

	December 31,					
	2005	2006	2007	2008	2009	2010
Middlesex Water Company	100.00	112.00	116.50	110.20	118.10	128.20
Dow Jones Wilshire 5000	100.00	115.80	122.30	76.70	98.50	115.40
Peer Group	100.00	100.40	96.70	94.70	94.30	112.20

Item 6. Selected Financial Data.**CONSOLIDATED SELECTED FINANCIAL DATA**
(Thousands Except per Share Data)

	2010	2009	2008	2007	2006
Operating Revenues	\$ 102,735	\$ 91,243	\$ 91,038	\$ 86,114	\$ 81,061
Operating Expenses:					
Operations and Maintenance	55,481	52,348	48,929	46,240	43,345
Depreciation	9,244	8,559	7,922	7,539	7,060
Other Taxes	11,413	10,175	10,168	9,664	9,338
Total Operating Expenses	76,138	71,082	67,019	63,443	59,743
Operating Income	26,597	20,161	24,019	22,671	21,318
Other Income, Net	1,444	1,726	1,302	1,527	774
Interest Charges	6,925	6,750	7,057	6,619	7,012
Income Taxes	6,786	5,160	6,056	5,736	5,041
Net Income	14,330	9,977	12,208	11,843	10,039
Preferred Stock Dividend	207	208	218	248	248
Earnings Applicable to Common Stock	\$ 14,123	\$ 9,769	\$ 11,990	\$ 11,595	\$ 9,791
Earnings per Share:					
Basic	\$ 0.96	\$ 0.73	\$ 0.90	\$ 0.88	\$ 0.83
Diluted	\$ 0.96	\$ 0.72	\$ 0.89	\$ 0.87	\$ 0.82
Average Shares Outstanding:					
Basic	14,654	13,454	13,317	13,203	11,844
Diluted	14,916	13,716	13,615	13,534	12,175
Dividends Declared and Paid	\$ 0.723	\$ 0.713	\$ 0.703	\$ 0.693	\$ 0.683
Total Assets	\$ 489,185	\$ 458,086	\$ 440,000	\$ 392,675	\$ 370,267
Convertible Preferred Stock	\$ 2,273	\$ 2,273	\$ 2,273	\$ 2,856	\$ 2,856
Long-term Debt	\$ 133,844	\$ 124,910	\$ 118,217	\$ 131,615	\$ 130,706

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

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

Management's Overview*Operations*

Middlesex Water Company has operated as a water utility in New Jersey since 1897, in Delaware through our wholly-owned subsidiary, Tidewater, since 1992 and in Pennsylvania through our wholly-owned subsidiary, Twin Lakes, since 2009. We are in the business of collecting, treating and distributing water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate a New Jersey municipal water and wastewater system under contract and provide wastewater services in New Jersey and Delaware through our subsidiaries. We are regulated as to rates charged to customers for water and wastewater services, as to the

quality of water service we provide and as to certain other matters in New Jersey, Delaware and Pennsylvania. Only our 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 60,000 retail customers, primarily in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey with a total population of approximately 303,000. In partnership with our subsidiary, USA-PA, we operate the water supply system and wastewater system for the City of Perth Amboy, New Jersey. Our Bayview subsidiary provides water services in Downe Township, New Jersey. Our other New Jersey subsidiaries, Pinelands Water and Pinelands Wastewater, provide water and wastewater services to residents in Southampton Township, New Jersey.

USA provides residential customers in New Jersey and Delaware a water service line and sewer lateral maintenance programs called LineCareSM and LineCare+SM, respectively.

Our Delaware subsidiaries, Tidewater and Southern Shores, provide water services to approximately 34,000 retail customers in New Castle, Kent and Sussex Counties, Delaware. Tidewater's subsidiary, White Marsh, services an additional 6,000 customers in Kent and Sussex Counties through various operations and maintenance contracts.

Our TESI subsidiary provides wastewater services to approximately 1,900 residential retail customers. We expect the growth of our regulated wastewater operations in Delaware will eventually become a more significant component of our operations.

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

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

Strategy

Our strategy is focused on four key areas:

- Serve as a trusted and continually-improving provider of safe, reliable and cost-effective water, wastewater and related services;
- Provide a comprehensive suite of water and wastewater solutions in the continually-developing Delaware market that results in profitable growth;
- Pursue profitable growth in our core states of New Jersey and Delaware, as well as additional states; and
- Invest in products, services and other viable opportunities that complement our core competencies.

Rates

Middlesex - In January 2011, Middlesex filed an application with the NJBPU seeking permission to establish a PWAC and implement a tariff rate sufficient to recover increased costs of \$0.4 million to purchase untreated water from the New Jersey Water Supply Authority and treated water from a non-affiliated regulated water

utility. We cannot predict whether the NJBPU will ultimately approve, deny, or reduce the amount of the request.

In March 2010, a settlement was reached with respect to Middlesex's application with the NJBPU seeking permission to increase its base water rates. The NJBPU granted an increase in annual operating revenues of 13.57%, or \$7.8 million. The base water rate increase request was made to seek recovery of increased costs of operations, chemicals and fuel, electricity, taxes, labor and benefits, decreases in industrial and commercial customer demand patterns, as well as capital investment. The new base water rates are designed to recover these increased costs, as well as a return on invested capital in rate base of \$180.3 million based on a return on equity of 10.30%.

Tidewater – A DSIC is a DEPSC approved rate-mechanism that allows water utilities to recover investment in non-revenue producing capital improvements to the water system between base rate proceedings. The following summarizes Tidewater's approved DSIC rates from January 1, 2010 through January 1, 2011:

Date	January 1, 2010	July 1, 2010	January 1, 2011
% Increase (Decrease)	1.11%	(0.04)%	0.27%
Cumulative %	1.11%	1.07%	1.34%

Outlook

Rate relief and favorable weather patterns bolstered our consolidated revenues in 2010. Even though revenues for 2011 should be favorably impacted by the full year effect of the March 2010 Middlesex rate increase, the Tidewater DSIC and the anticipated Middlesex PWAC, there can be no assurance that the higher level of customer water consumption experienced during the extended hot, dry period throughout our service territories in 2010 will continue in 2011. Severe winter weather in early 2011 has negatively impacted our operation and maintenance costs for main breaks and snow removal, particularly in New Jersey. These weather patterns may continue, which could further increase costs.

Ongoing economic conditions continue to negatively impact our customers' water consumption, particularly the level of water usage by our commercial and industrial customers in our Middlesex system. In the second half of 2010, we began to see an increase in usage by our commercial and industrial customers. However, we are unable to determine when these customers' water demands may fully return to previous levels, or if a reduced level of demand will continue indefinitely. We were given appropriate recognition of this decrease in demand in Middlesex's March 2010 rate increase.

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

Middlesex and several of its subsidiaries are expected to file for rate increases in 2011. There can be no assurances however, that the respective Utility Commissions will approve the anticipated rate increase requests in whole or in part. In addition, the timing of approval of these rate requests is presently not known.

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

The return on assets held in our retirement benefit plans during 2010 resulted in an increase in the amount available to fund current and future obligations. We expect this will help mitigate retirement plan benefit expenses and retirement plan cash contributions in 2011.

Operating Results by Segment

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

The Company has two operating segments, Regulated and Non-Regulated. Our Regulated segment contributed approximately 90%, 88% and 89% of total revenues, and approximately 92%, 87% and 90% of net income for the years ended December 31, 2010, 2009 and 2008, respectively. The discussion of the Company's results of operations is on a consolidated basis, and includes significant factors by subsidiary. The segments in the tables included below are comprised of the following companies: Regulated- Middlesex, Tidewater, Pinelands, Southern Shores, TESI and Twin Lakes; Non-Regulated- USA, USA-PA, and White Marsh.

Results of Operations in 2010 Compared to 2009

	(Millions of Dollars)					
	Years ended December 31,					
	2010			2009		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$ 92.0	\$ 10.7	\$ 102.7	\$ 80.6	\$ 10.6	\$ 91.2
Operations and maintenance	47.0	8.5	55.5	44.2	8.1	52.3
Depreciation	9.1	0.1	9.2	8.4	0.1	8.5
Other taxes	11.1	0.3	11.4	9.9	0.3	10.2
Operating income	\$ 24.8	\$ 1.8	\$ 26.6	\$ 18.1	\$ 2.1	\$ 20.2
Other income, net	1.1	0.3	1.4	1.4	0.3	1.7
Interest expense	6.8	0.1	6.9	6.5	0.2	6.7
Income taxes	6.0	0.8	6.8	4.3	0.9	5.2
Net income	\$ 13.1	\$ 1.2	\$ 14.3	\$ 8.7	\$ 1.3	\$ 10.0

Operating Revenues

Operating revenues for the year ended December 31, 2010 increased \$11.5 million from the same period in 2009. This increase was primarily related to the following factors:

- Revenues in our Middlesex System increased \$8.5 million, primarily as a result of the following:
 - o Contract Sales to Municipalities increased by \$2.6 million due to higher customer demand for water and the March 2010 rate increase;
 - o Sales to General Metered Service (GMS) Customers increased by \$4.0 million from the implementation of the March 2010 base water rate increase (\$3.2 million) and increased customer demand for water (\$0.8 million). The increased demand primarily resulted from hot, dry weather in the summer months and an increase in demand by our commercial and industrial customers in the 3rd and 4th quarters of 2010, which mitigated decreased demand through the six months ended June 30, 2010. In 2009 and through the 2nd quarter of 2010, water consumption by our commercial and industrial customer class was below the historical average;

- o Facilities Charges increased by \$2.0 million from the March 2010 rate increase; and
- o All other revenue categories decreased \$0.1 million.
- Revenues in our Tidewater System increased \$2.7 million primarily from the following:
 - o Higher demand by our GMS customers (\$1.5 million);
 - o Increased base water rates that went into effect during 2009 (\$0.4 million);
 - o A contract to temporarily provide water to Dover Air Force Base in Delaware (\$0.4 million);
 - o New customer growth increased connection fees and facilities charges (\$0.5 million); and
 - o All other revenue categories decreased \$0.1 million.
- Additional services provided by White Marsh under non-regulated contracts increased revenues by \$0.2 million.
- All other subsidiaries' revenues collectively increased \$0.1 million.

Operation and Maintenance Expense

Operation and maintenance expenses for the year ended December 31, 2010 increased \$3.2 million from the same period in 2009. This increase was primarily related to the following factors:

- Increased material and supply and outside contractor costs of \$0.8 million due to water main breaks in our Middlesex and Tidewater Systems;
- Increased purchased water costs of \$0.5 million in our Middlesex and Tidewater Systems, primarily from the aforementioned increased customer demand;
- Increased net costs of \$0.5 million from the implementation of a Company-wide information technology platform;
- Increased labor costs of \$0.9 million related to higher average labor rates and increased overtime related to higher water production and increased main breaks in our Middlesex and Tidewater Systems.
- Increased employee benefit costs of \$0.2 million primarily related to higher life insurance expenses resulting from market fluctuations in the cash surrender value of life insurance policies; and
- All other operation and maintenance expense categories collectively increased \$0.3 million.

Depreciation

Depreciation expense for the year ended December 31, 2010 increased \$0.7 million from the same period in 2009 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the year ended December 31, 2010 increased \$1.2 million from the same period in 2009, primarily due to increased gross receipts and franchise taxes on higher taxable revenues in our Middlesex System.

Other Income, net

Other Income, net for the year ended December 31, 2010 decreased \$0.3 million from the same period in 2009, primarily related to the following factors:

- Decreased Other Income of \$0.2 million, primarily related to the sale of a non-operating asset in the third quarter of 2009;
- Increased Other Expenses of \$0.2 million for certain costs related to potential projects at our Delaware subsidiaries; and
- All additional Other Income, net categories increased \$0.1 million.

Interest Charges

Interest charges for the year ended December 31, 2010 increased \$0.2 million from the same period in 2009, primarily from replacing variable-rate, short-term loans under our lines of credit with longer-term, fixed rate borrowings at higher interest rates.

Income Taxes

Income taxes for the year ended December 31, 2010 increased \$1.6 million from the same period in 2009, as a result of higher taxable income in 2010 as compared to 2009.

Net Income and Earnings Per Share

Favorable results for the year ended December 31, 2010 increased net income by \$4.3 million when compared to the same period in 2009. Basic and diluted earnings per share increased to \$0.96 for the year ended December 31, 2010 as compared to \$0.73 and \$0.72, respectively, for the year ended December 31, 2009. The increase in earnings per share for the year ended December 31, 2010 as compared to the same period in 2009 was tempered by an increase in the average number of common shares outstanding after the Company's public offering of 1.9 million shares of common stock in June 2010.

Results of Operations in 2009 Compared to 2008

	(Millions of Dollars)					
	2009			2008		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$ 80.6	\$ 10.6	\$ 91.2	\$ 81.1	\$ 9.9	\$ 91.0
Operations and maintenance	44.2	8.1	52.3	41.2	7.7	48.9
Depreciation	8.4	0.1	8.5	7.8	0.1	7.9
Other taxes	9.9	0.3	10.2	10.0	0.2	10.2
Operating income	\$ 18.1	\$ 2.1	\$ 20.2	\$ 22.1	\$ 1.9	\$ 24.0
Other income, net	1.4	0.3	1.7	0.9	0.4	1.3
Interest expense	6.5	0.2	6.7	7.0	0.1	7.1
Income taxes	4.3	0.9	5.2	5.0	1.0	6.0
Net income	\$ 8.7	\$ 1.3	\$ 10.0	\$ 11.0	\$ 1.2	\$ 12.2

Operating Revenues

Operating revenues for the year ended December 31, 2009 increased \$0.2 million from the same period in 2008. This increase was primarily related to the following factors:

- Revenues in our Middlesex System decreased \$1.6 million, primarily as a result of lower water consumption across our residential, commercial and industrial customer classes. We experienced a \$1.9 million decline in water use by our GMS customers compared to the same period in 2008. This lower water consumption was attributable to unfavorable weather as compared to prior years as well as decreased demand by our large commercial and industrial customers. Increased revenues of \$0.4 million from the PWAC implemented on July 1, 2009, offset some of the consumption revenue decline. All other factors affecting Middlesex system revenues accounted for a \$0.1 million decrease in revenues.
- Revenues in our Tidewater system increased \$1.4 million. Revenue of \$1.6 million from increased rates helped to mitigate consumption revenue decreases of \$0.8 million, largely attributable to those same weather and usage patterns described above. New customer growth and other fees added \$0.4 million of revenue. All other factors affecting Tidewater system revenues accounted for a \$0.2 million increase in revenues.
- USA-PA's fees for managing the Perth Amboy water and wastewater systems were \$0.5 million higher than the same period in 2008, due mostly to higher pass-through charges and scheduled management fee increases.
- All other operations accounted for a decrease of \$0.1 million in revenues.

Operation and Maintenance Expense

Operation and maintenance expenses for the year ended December 31, 2009 increased \$3.4 million from the same period in 2008. This increase was primarily related to the following factors:

- Labor costs at our regulated entities increased \$0.9 million in 2009 as compared to 2008, primarily due to increases in wages and resources necessary to meet certain additional needs as well as increased overtime incurred in connection with a higher incidence of water main breaks and system maintenance in our Middlesex system.
- Chemical and residuals disposal expenses increased by \$0.8 million in 2009 as compared to 2008. Although unfavorable weather patterns and economic conditions resulted in a decline in water production in our New Jersey and Delaware systems, costs for chemicals and residuals disposal increased due to a combination of unit cost disposal rate increases and lower quality of untreated water, as influenced by abnormally high rainfall during 2009.
- Purchased water costs in our Middlesex system increased \$0.5 million in 2009 as compared to 2008, primarily due to the full year's effect of our suppliers' rate increases that went into effect in the fourth quarter of 2008.
- Employee retirement benefit plan expenses increased \$0.4 million, primarily resulting from increased qualified employee retirement benefit plan expenses of \$1.2 million, largely attributable to the investment performance of the benefit plans' assets, offset by a decrease of \$0.8 million in life insurance program expenses due to market fluctuations in the cash surrender value of life insurance policies.
- Uncollectible accounts expense increased \$0.4 million in 2009 as compared to 2008, resulting from current economic conditions.
- Operating costs for USA-PA increased \$0.3 million, which are recovered under the pass-through mechanism in the contract.
- All other operating and maintenance expense categories increased \$0.1 million in 2009 as compared to 2008.

Depreciation

Depreciation expense for the year ended December 31, 2009 increased \$0.6 million from the same period in 2008 due to a higher level of utility plant in service.

Other Taxes

Other taxes remained consistent with 2008, generally reflecting decreased taxes on lower taxable gross revenues offset by increased payroll and real estate taxes.

Other Income, net

Other Income, net for the year ended December 31, 2009 increased \$0.4 million from the same period in 2008, primarily due to increased Allowance for Funds Used During Construction from higher capitalized interest resulting from our ongoing capital program.

Interest Expense

Interest expense for the year ended December 31, 2009 decreased \$0.4 million from the same period in 2008. This decrease was primarily related to the following factors:

- Interest expense on long term debt decreased \$0.5 million in 2009 as compared to 2008, primarily resulting from lower average long-term debt outstanding in 2009.
- Other interest expense increased \$0.1 million in 2009 as compared to 2008, primarily due to increased interest costs from higher average short-term debt outstanding in 2009 (\$40.0 million) as compared to 2008 (\$16.4 million) offset by decreased interest costs from lower average short term debt interest rates in 2009 (1.73%) as compared to 2008 (3.69%).

Income Taxes

Income taxes for the year ended December 31, 2009 decreased \$0.8 million as compared to 2008, primarily resulting from decreased operating income in 2009 as compared to 2008.

Net Income and Earnings Per Share

Net income for the year ended December 31, 2009 decreased \$2.2 million from the same period in 2008. Basic earnings per share decreased to \$0.73 in 2009 as compared to \$0.90 in 2008. Diluted earnings per share decreased to \$0.72 in 2009 as compared to \$0.89 in 2008.

Liquidity and Capital Resources

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

For the year ended December 31, 2010, cash flows from operating activities increased \$7.1 million to \$25.6 million. As described more fully in the Results of Operations section above, increased earnings was the primary reason for the increase in cash flow. The \$25.6 million of net cash flow from operations enabled us to fund approximately 86% of our utility plant expenditures internally for the period.

For the year ended December 31, 2009, cash flows from operating activities decreased \$0.9 million to \$18.5 million. As described more fully in the Results of Operations section above, lower earnings was the primary reason for the decrease in cash flow. The \$18.5 million of net cash flow from operations enabled us to fund approximately 92% of our utility plant expenditures internally for the period, with the remainder funded by bank lines of credit and other loan commitments.

Increases in certain operating costs impact our liquidity and capital resources. During 2010, we received rate relief for Middlesex and Tidewater. We continually monitor the need for timely rate filing to minimize the lag between the time we experience increased operating and capital costs and the time we receive appropriate rate relief. Middlesex and several of its subsidiaries are expected to file for rate increases in 2011. There can be no assurances however, that the respective Utility Commissions will approve the anticipated rate increase requests in whole or in part. In addition, the timing of approval of these rate requests is not known.

Capital Expenditures and Commitments

To fund our capital program, we use internally generated funds, short term and long term debt borrowings, and when market conditions are favorable, proceeds from sales of common stock under our DRP and offerings to the public.

The table below summarizes our estimated capital expenditures for the years 2011-2013.

	(Millions)			
	2011	2012	2013	2011-2013
Distribution System	\$ 13.5	\$ 12.0	\$ 12.8	\$ 38.3
Production System	5.2	4.5	11.0	20.7
Computer Systems	2.7	0.4	0.4	3.5
Other	1.5	1.1	0.9	3.5
Total Estimated Capital Expenditures	\$ 22.9	\$ 18.0	\$ 25.1	\$ 66.0

Our estimated capital expenditures for the items listed above are primarily comprised of the following:

- Distribution System-Projects associated with installation and relocation of water mains and service lines, construction of water storage tanks, installation and replacement of hydrants and meters and our RENEW Program, which is our program to clean and cement unlined mains in the Middlesex System. In connection with our RENEW Program, we expect to spend \$5.0 million, \$4.0 million and \$4.0 million for 2011, 2012 and 2013, respectively.
- Production System-Projects associated with our water production and water treatment plants, including construction of a water treatment plant in our Middlesex system expected to be completed in 2014.
- Computer Systems-Purchase of hardware and software as well as expected costs to complete implementation of our enterprise resource planning system.
- Other-Purchase of vehicles and other transportation equipment, tools, furniture, laboratory equipment, security requirements and other general infrastructure needs.

The actual amount and timing of capital expenditures is dependent on customer growth, residential new home construction and sales and project scheduling.

To pay for our capital program in 2011, we plan on utilizing:

- Internally generated funds
- Proceeds from the sale of common stock through the DRP
- Funds available and held in trust under existing New Jersey State Revolving Fund (SRF) loans (currently, \$5.7 million) and Delaware SRF loans (currently, \$1.1 million) and, if available, proceeds

from 2011 Delaware and New Jersey SRF programs. The SRF programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks.

Short-term borrowings, if necessary, through \$58.0 million of available lines of credit with several financial institutions. As of December 31, 2010, we had \$17.0 million outstanding against the lines of credit.

Sources of Liquidity

Short-term Debt. The Company had established lines of credit aggregating \$58.0 million as of December 31, 2010. At December 31, 2010, the outstanding borrowings under these credit lines were \$17.0 million at a weighted average interest rate of 1.53%.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were \$26.4 million and \$40.0 million at 1.58% and 1.73% for the years ended December 31, 2010 and 2009, respectively.

Long-term Debt. Subject to regulatory approval, the Company periodically finances capital projects under SRF loan programs in New Jersey and Delaware. These government programs provide financing at interest rates that are typically below rates available in the broader financial markets. A portion of the borrowings under the New Jersey SRF is interest-free. We participated in the New Jersey and Delaware SRF loan programs during 2010 and expect to participate in the 2011 New Jersey and Delaware SRF programs for up to \$4.0 million and \$4.5 million, respectively.

In February 2010, Tidewater closed on a \$1.1 million loan with the Delaware SRF. This loan allows, but does not obligate, Tidewater to draw down against a General Obligation Note for a specific project no later than July 31, 2011. The interest rate on any draw-down will be set at 3.45% with a final maturity of August 1, 2031 on the amount actually borrowed. In December 2010, Tidewater borrowed approximately \$17 thousand under this loan.

In March 2009, Tidewater closed on a \$22.0 million DEPSC approved loan. In 2009, Tidewater borrowed \$12.0 million under this loan. In March 2010, Tidewater borrowed the remaining \$10.0 million at a rate of 5.69% with a final maturity in January 2030.

In December 2010, Middlesex issued \$4.0 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust under the New Jersey SRF program. The Company closed on the first mortgage bonds designated as Series MM and NN in December 2010. Proceeds from the Series MM and NN bonds are included in Restricted Cash and will be used for Middlesex's 2011 RENEW Program.

Substantially all of the Utility Plant of the Company is subject to the lien of its mortgage, which includes debt service and capital ratio covenants. The Company is in compliance with all of its mortgage covenants and restrictions.

Common Stock. In June 2010, the Company sold and issued 1.9 million shares of common stock in a public offering that was priced at \$15.21 per share. The net proceeds of approximately \$27.8 million were used to repay certain of the Company's short-term debt outstanding.

The Company periodically issues shares of common stock in connection with its DRP. The Company raised \$1.9 million through the issuance of 0.1 million shares under the DRP during 2010.

Contractual Obligations

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

The table below presents our known contractual obligations for the periods specified as of December 31, 2010.

	Payment Due by Period (Millions of Dollars)				
	Total	Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years
Long-term Debt	\$ 138.3	\$ 4.4	\$ 9.2	\$ 9.5	\$ 115.2
Notes Payable	17.0	17.0	-	-	-
Interest on Long-term Debt	95.1	6.7	12.8	12.0	63.6
Purchased Water Contracts	45.8	5.2	10.4	10.3	19.9
Wastewater Operations	39.1	4.4	9.2	9.8	15.7
Total	\$ 335.3	\$ 37.7	\$ 41.6	\$ 41.6	\$ 214.4

The table above does not reflect any anticipated cash payments for postretirement benefit plan obligations. The effect on the timing and amount of these payments resulting from potential changes in actuarial assumptions and returns on plan assets cannot be estimated. In 2010, the Company contributed \$6.3 million to its postretirement benefit plans and expects to contribute approximately \$5.5 million in 2011.

Critical Accounting Policies and Estimates

The application of accounting policies and standards often requires the use of estimates, assumptions and judgments. The Company regularly evaluates these estimates, assumptions and judgments, including those related to the calculation of pension and postretirement benefits, unbilled revenues, and the recoverability of certain assets, including regulatory assets. The Company bases its estimates, assumptions and judgments on historical experience and current operating environment. Changes in any of the variables that are used for the Company's estimates, assumptions and judgments may lead to significantly different financial statement results.

Our critical accounting policies are set forth below.

Regulatory Accounting

We maintain our books and records in accordance with accounting principles generally accepted in the United States of America. Middlesex and certain of its subsidiaries, which account for approximately 90% of Operating Revenues and 98% of Total Assets, are subject to regulation in the states in which they operate. Those companies are required to maintain their accounts in accordance with regulatory authorities' rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance in the Financial Accounting Standards Board Accounting Standards Codification Topic 980 *Regulated Operations* (Regulatory Accounting).

In accordance with Regulatory Accounting, costs and obligations are deferred if it is probable that these items will be recognized for rate-making purposes in future rates. Accordingly, we have recorded costs and

obligations, which will be amortized over various future periods. Any change in the assessment of the probability of rate-making treatment will require us to change the accounting treatment of the deferred item. We have no reason to believe any of the deferred items that are recorded will be treated differently by the regulators in the future.

Revenues

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

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

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

Postretirement Benefit Plans

The costs for providing postretirement benefits are dependent upon numerous factors, including actual plan experience and assumptions of future experience. Future postretirement benefit plan obligations and expense will depend on future investment performance, changes in future discount rates and various other demographic factors related to the population participating in the Company's postretirement benefit plans, all of which can change significantly in future years.

We maintain a noncontributory defined benefit pension plan (Pension Plan) which covers substantially all employees who were hired prior to March 31, 2007. In addition, the Company maintains an unfunded supplemental plan for its executive officers.

The Company has a postretirement benefit plan other than pensions (Other Benefits Plan) for substantially all of its retired employees. Employees hired after March 31, 2007 are not eligible to participate in the Other Benefits Plan. Coverage includes healthcare and life insurance.

The allocation by asset category of postretirement benefit plan assets at December 31, 2010 and 2009 is as follows:

Asset Category	Pension Plan		Other Benefits Plan		Target	Range
	2010	2009	2010	2009		
Equity Securities	64.0%	59.2%	42.3%	40.4%	60%	30-65%
Debt Securities	31.7%	36.4%	53.8%	49.5%	38%	25-70%
Cash	4.0%	4.1%	3.1%	9.0%	2%	0-10%
Commodities	0.3%	0.3%	0.8%	1.1%	0%	0%
Total	100.0%	100.0%	100.0%	100.0%		

The discount rate, compensation increase rate and long-term rate of return utilized for determining our postretirement benefit plans' future obligations as of December 31, 2010 are as follows:

	Pension Plan	Other Benefits Plan
Discount Rate	5.48%	5.48%
Compensation Increase	3.00%	3.00%
Long-term Rate of Return	7.50%	7.50%

For the 2010 valuation, costs and obligations for our Other Benefits Plan assumed a 9.0% annual rate of increase in the per capita cost of covered healthcare benefits in 2011 with a decline of 1.0% per year for 2012-2014 and 0.5% per year for 2015-2016, resulting in an annual rate of increase in the per capita cost of covered healthcare benefits of 5% by year 2016.

The following is a sensitivity analysis for certain actuarial assumptions used in determining projected benefit obligations (PBO) and expenses for our postretirement benefit plans:

Pension Plan

Actuarial Assumptions	Estimated Increase/ (Decrease) on PBO (000s)	Estimated Increase/ (Decrease) on Expense (000s)
Discount Rate 1% Increase	\$ (5,391)	\$ (521)
Discount Rate 1% Decrease	6,717	633

Other Benefits Plan

Actuarial Assumptions	Estimated Increase/ (Decrease) on PBO (000s)	Estimated Increase/ (Decrease) on Expense (000s)
Discount Rate 1% Increase	\$ (4,221)	\$ (426)
Discount Rate 1% Decrease	5,348	531
Healthcare Cost Trend Rate 1% Increase	4,553	696
Healthcare Cost Trend Rate 1% Decrease	(3,669)	(548)

The discount rates used at our December 31 measurement date for determining future postretirement benefit plans' obligations and costs are determined based on market rates for long-term, high-quality corporate bonds specific to our Pension Plan and Other Benefits Plan's asset allocation. The expected long-term rate of return for Pension Plan and Other Benefits Plan assets is determined based on historical returns and our asset allocation.

Recent Accounting Standards

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

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

The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2018 to 2038. Over the next twelve months, approximately \$4.4 million of the current portion of 30 existing long-term debt instruments will mature. Applying a hypothetical change in the rate of interest charged by 10% on those borrowings, would not have a material effect on our earnings.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Middlesex Water Company

We have audited the accompanying consolidated balance sheets and consolidated statements of capital stock and long-term debt of Middlesex Water Company (the “Company”) as of December 31, 2010 and 2009, and the related consolidated statements of income, common stockholders’ equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Middlesex Water Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Middlesex Water Company’s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 9, 2011 expressed an unqualified opinion.

/s/ ParenteBeard LLC

Reading, Pennsylvania

March 9, 2011

MIDDLESEX WATER COMPANY
CONSOLIDATED BALANCE SHEETS
(In thousands)

		December 31, 2010	December 31, 2009
ASSETS			
UTILITY PLANT:	Water Production	\$ 118,919	\$ 113,124
	Transmission and Distribution	308,468	293,269
	General	44,368	29,631
	Construction Work in Progress	11,715	17,547
	TOTAL	483,470	453,571
	Less Accumulated Depreciation	84,737	77,027
	UTILITY PLANT - NET	398,733	376,544
CURRENT ASSETS:	Cash and Cash Equivalents	2,453	4,278
	Accounts Receivable, net	11,963	10,616
	Unbilled Revenues	4,752	4,424
	Materials and Supplies (at average cost)	2,196	1,618
	Prepayments	1,401	1,109
	TOTAL CURRENT ASSETS	22,765	22,045
DEFERRED CHARGES AND OTHER ASSETS:	Unamortized Debt Expense	2,739	2,856
	Preliminary Survey and Investigation Charges	7,023	6,999
	Regulatory Assets	38,771	33,081
	Operations and Developer Contracts Receivable	4,589	3,715
	Restricted Cash	7,056	5,266
	Non-utility Assets - Net	7,122	7,134
	Other	387	446
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	67,687	59,497
	TOTAL ASSETS	\$ 489,185	\$ 458,086
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	\$ 139,534	\$ 109,366
	Retained Earnings	33,745	30,265
	TOTAL COMMON EQUITY	173,279	139,631
	Preferred Stock	3,362	3,373
	Long-term Debt	133,844	124,910
	TOTAL CAPITALIZATION	310,485	267,914
CURRENT LIABILITIES:	Current Portion of Long-term Debt	4,432	3,710
	Notes Payable	17,000	42,850
	Accounts Payable	6,403	4,348
	Accrued Taxes	8,752	5,686
	Accrued Interest	1,598	1,861
	Unearned Revenues and Advanced Service Fees	864	861
	Other	1,691	1,352
	TOTAL CURRENT LIABILITIES	40,740	60,668
COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)			
DEFERRED CREDITS AND OTHER LIABILITIES:	Customer Advances for Construction	21,261	20,806
	Accumulated Deferred Investment Tax Credits	1,225	1,303
	Accumulated Deferred Income Taxes	29,691	27,788
	Employee Benefit Plans	28,562	25,723
	Regulatory Liability - Cost of Utility Plant Removal	7,369	6,738
	Other	154	275
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	88,262	82,633
CONTRIBUTIONS IN AID OF CONSTRUCTION		49,698	46,871
	TOTAL CAPITALIZATION AND LIABILITIES	\$ 489,185	\$ 458,086

See Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2010	2009	2008
Operating Revenues	\$ 102,735	\$ 91,243	\$ 91,038
Operating Expenses:			
Operations and Maintenance	55,481	52,348	48,929
Depreciation	9,244	8,559	7,922
Other Taxes	11,413	10,175	10,168
Total Operating Expenses	76,138	71,082	67,019
Operating Income	26,597	20,161	24,019
Other Income (Expense):			
Allowance for Funds Used During Construction	970	1,001	667
Other Income	912	1,011	906
Other Expense	(438)	(286)	(271)
Total Other Income, net	1,444	1,726	1,302
Interest Charges	6,925	6,750	7,057
Income before Income Taxes	21,116	15,137	18,264
Income Taxes	6,786	5,160	6,056
Net Income	14,330	9,977	12,208
Preferred Stock Dividend Requirements	207	208	218
Earnings Applicable to Common Stock	\$ 14,123	\$ 9,769	\$ 11,990
Earnings per share of Common Stock:			
Basic	\$ 0.96	\$ 0.73	\$ 0.90
Diluted	\$ 0.96	\$ 0.72	\$ 0.89
Average Number of			
Common Shares Outstanding :			
Basic	14,654	13,454	13,317
Diluted	14,916	13,716	13,615
Cash Dividends Paid per Common Share	\$ 0.723	\$ 0.713	\$ 0.703

See Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 14,330	\$ 9,977	\$ 12,208
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities:			
Depreciation and Amortization	9,958	9,217	8,530
Provision for Deferred Income Taxes and ITC	630	5,522	1,032
Equity Portion of AFUDC	(611)	(580)	(348)
Cash Surrender Value of Life Insurance	104	(387)	576
Gain on Disposal of Equity Investments	-	-	(86)
Stock Compensation Expense	323	386	288
Changes in Assets and Liabilities:			
Accounts Receivable	(2,222)	(1,112)	(807)
Unbilled Revenues	(328)	398	(213)
Materials & Supplies	(578)	(143)	(270)
Prepayments	(292)	372	(118)
Accounts Payable	2,055	(1,341)	147
Accrued Taxes	3,066	(2,096)	206
Accrued Interest	(263)	(192)	137
Employee Benefit Plans	(1,904)	(354)	(1,146)
Unearned Revenue & Advanced Service Fees	3	19	84
Other Assets and Liabilities	1,294	(1,180)	(816)
NET CASH PROVIDED BY OPERATING ACTIVITIES	25,565	18,506	19,404
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility Plant Expenditures, Including AFUDC of \$359 in 2010, \$421 in 2009 and \$319 in 2008	(29,604)	(20,128)	(30,336)
Restricted Cash	(1,790)	456	(591)
NET CASH USED IN INVESTING ACTIVITIES	(31,394)	(19,672)	(30,927)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of Long-term Debt	(4,314)	(18,244)	(2,787)
Proceeds from Issuance of Long-term Debt	13,970	12,014	4,652
Net Short-term Bank Borrowings	(25,850)	16,973	19,627
Deferred Debt Issuance Expense	(25)	(116)	(158)
Common Stock Issuance Expense	(133)	-	-
Restricted Cash	-	(25)	(40)
Repurchase of Preferred Stock	(11)	-	-
Proceeds from Issuance of Common Stock	29,845	1,251	1,187
Payment of Common Dividends	(10,510)	(9,582)	(9,353)
Payment of Preferred Dividends	(207)	(208)	(218)
Construction Advances and Contributions-Net	1,239	93	(128)
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,004	2,156	12,782
NET CHANGES IN CASH AND CASH EQUIVALENTS	(1,825)	990	1,259
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,278	3,288	2,029
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,453	\$ 4,278	\$ 3,288
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:			
Utility Plant received as Construction Advances and Contributions	\$ 2,043	\$ 4,264	\$ 5,452
Transfer of Equity Investment to Employee Retirement Benefit Plans	\$ -	\$ -	\$ 132
Long-term Debt Deobligation	\$ -	\$ 1,352	\$ -
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:			
Cash Paid During the Year for:			
Interest	\$ 7,155	\$ 6,887	\$ 6,864
Interest Capitalized	\$ 359	\$ 421	\$ 319
Income Taxes	\$ 4,617	\$ 1,856	\$ 5,205

See Notes to Consolidated Financial Statements.

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

	December 31, 2010	December 31, 2009
Common Stock, No Par Value		
Shares Authorized - 40,000		
Shares Outstanding - 2010 - 15,566	\$ 139,534	\$ 109,366
2009 - 13,519		
Retained Earnings	33,745	30,265
TOTAL COMMON EQUITY	\$ 173,279	\$ 139,631
Cumulative Preferred Stock, No Par Value:		
Shares Authorized - 134		
Shares Outstanding - 32		
Convertible:		
Shares Outstanding, \$7.00 Series - 14	\$ 1,457	\$ 1,457
Shares Outstanding, \$8.00 Series - 7	816	816
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1	89	100
Shares Outstanding, \$4.75 Series - 10	1,000	1,000
TOTAL PREFERRED STOCK	\$ 3,362	\$ 3,373
Long-term Debt:		
8.05%, Amortizing Secured Note, due December 20, 2021	\$ 2,456	\$ 2,581
6.25%, Amortizing Secured Note, due May 22, 2028	7,315	7,735
6.44%, Amortizing Secured Note, due August 25, 2030	5,507	5,787
6.46%, Amortizing Secured Note, due September 19, 2031	5,787	6,067
4.22%, State Revolving Trust Note, due December 31, 2022	585	622
3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025	3,655	3,687
3.49%, State Revolving Trust Note, due January 25, 2027	664	678
4.03%, State Revolving Trust Note, due December 1, 2026	865	903
4.00% to 5.00%, State Revolving Trust Bond, due September 1, 2021	522	625
0.00%, State Revolving Fund Bond, due September 1, 2021	397	436
3.64%, State Revolving Trust Note, due July 1, 2028	387	395
3.64%, State Revolving Trust Note, due January 1, 2028	130	132
3.45%, State Revolving Trust Note, due August 1, 2031	17	-
6.59%, Amortizing Secured Note, due April 20, 2029	6,395	6,743
7.05%, Amortizing Secured Note, due January 20, 2030	4,771	5,000
5.69%, Amortizing Secured Note, due January 20, 2030	9,786	-
First Mortgage Bonds:		
5.20%, Series S, due October 1, 2022	12,000	12,000
5.25%, Series T, due October 1, 2023	6,500	6,500
5.25%, Series V, due February 1, 2029	10,000	10,000
5.35%, Series W, due February 1, 2038	23,000	23,000
0.00%, Series X, due September 1, 2018	430	483
4.25% to 4.63%, Series Y, due September 1, 2018	590	650
0.00%, Series Z, due September 1, 2019	1,007	1,118
5.25% to 5.75%, Series AA, due September 1, 2019	1,440	1,560
0.00%, Series BB, due September 1, 2021	1,328	1,447
4.00% to 5.00%, Series CC, due September 1, 2021	1,680	1,790
5.10%, Series DD, due January 1, 2032	6,000	6,000
0.00%, Series EE, due August 1, 2023	5,224	5,642
3.00% to 5.50%, Series FF, due August 1, 2024	6,555	6,935
0.00%, Series GG, due August 1, 2026	1,440	1,530
4.00% to 5.00%, Series HH, due August 1, 2026	1,715	1,810
0.00%, Series II, due August 1, 2024	1,239	1,619
3.40% to 5.00%, Series JJ, due August 1, 2024	1,625	1,690
0.00%, Series KK, due August 1, 2028	1,616	1,705
5.00% to 5.50%, Series LL, due August 1, 2028	1,695	1,750
0.00%, Series MM, due August 1, 2030	1,968	-
3.00% to 4.375%, Series NN, due August 1, 2030	1,985	-
SUBTOTAL LONG-TERM DEBT	138,276	128,620
Less: Current Portion of Long-term Debt	(4,432)	(3,710)
TOTAL LONG-TERM DEBT	\$ 133,844	\$ 124,910

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(In thousands)

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2008	13,246	\$ 105,668	\$ 27,441	\$ 69	\$ 133,178
Net Income			12,208		12,208
Change in Value of Equity Investments, Net of \$36 Income Tax				(69)	(69)
Comprehensive Income					12,139
Dividend Reinvestment & Common Stock					
Purchase Plan	67	1,187			1,187
Conversion of \$8 Convertible Preferred Stock	69	583			583
Restricted Stock Award, Net - Employees	22	288			288
Cash Dividends on Common Stock			(9,353)		(9,353)
Cash Dividends on Preferred Stock			(218)		(218)
Other			(1)		(1)
Balance at December 31, 2008	<u>13,404</u>	<u>\$ 107,726</u>	<u>\$ 30,077</u>	<u>\$ -</u>	<u>\$ 137,803</u>
Net Income			9,977		9,977
Dividend Reinvestment & Common Stock					
Purchase Plan	84	1,254			1,254
Restricted Stock Award, Net - Employees	29	365			365
Stock Award - Board Of Directors	2	21			21
Cash Dividends on Common Stock			(9,582)		(9,582)
Cash Dividends on Preferred Stock			(208)		(208)
Other			1		1
Balance at December 31, 2009	<u>13,519</u>	<u>\$ 109,366</u>	<u>\$ 30,265</u>	<u>\$ -</u>	<u>\$ 139,631</u>
Net Income			14,330		14,330
Dividend Reinvestment & Common Stock					
Purchase Plan	116	1,917			1,917
Restricted Stock Award, Net - Employees	14	299			299
Stock Award - Board Of Directors	2	24			24
Issuance of Common Stock	1,915	27,928			27,928
Cash Dividends on Common Stock			(10,510)		(10,510)
Cash Dividends on Preferred Stock			(207)		(207)
Common Stock Expenses			(133)		(133)
Balance at December 31, 2010	<u>15,566</u>	<u>\$ 139,534</u>	<u>\$ 33,745</u>	<u>\$ -</u>	<u>\$ 173,279</u>

See Notes to Consolidated Financial Statements.

Middlesex Water Company
Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

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

Middlesex Water Company has operated as a water utility in New Jersey since 1897, in Delaware, through our wholly-owned subsidiary, Tidewater, since 1992 and in Pennsylvania, through our wholly-owned subsidiary, Twin Lakes, since 2009. We are in the business of collecting, treating, distributing and selling water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate a New Jersey municipal water and wastewater system under contract and provide wastewater services in New Jersey and Delaware through our subsidiaries. Our rates charged to customers for water and wastewater services, the quality of services we provide and certain other matters are regulated in New Jersey, Delaware and Pennsylvania by the New Jersey Board of Public Utilities (NJBPU), Delaware Public Service Commission (DEPSC) and Pennsylvania Public Utilities Commission (PAPUC), respectively. Only our USA, USA-PA and White Marsh subsidiaries are not regulated utilities.

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

(b) System of Accounts – Middlesex, Pinelands Water and Pinelands Wastewater maintain their accounts in accordance with the Uniform System of Accounts prescribed by the NJBPU. Tidewater, TESI and Southern Shores maintain their accounts in accordance with DEPSC requirements. Twin Lakes maintains its accounts in accordance with PAPUC requirements.

(c) Utility Plant – Utility Plant is stated at original cost as defined for regulatory purposes. Property accounts are charged with the cost of betterments and major replacements of property. Cost includes direct material, labor and indirect charges for pension benefits and payroll taxes. The cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties is charged to the appropriate expense accounts. At December 31, 2010, there was no event or change in circumstance that would indicate that the carrying amount of any long-lived asset was not recoverable.

(d) Depreciation – Depreciation is computed by each regulated member of the Company utilizing a rate approved by the applicable regulatory authority. The Accumulated Provision for Depreciation is charged with the cost of property retired, less salvage. The following table sets forth the range of depreciation rates for the

major utility plant categories used to calculate depreciation for the years ended December 31, 2010, 2009 and 2008. These rates have been approved by the NJBPU, DEPSC or PAPUC:

Source of Supply	1.15% - 3.44%	Transmission and Distribution (T&D):	
Pumping	2.87% - 5.39%	T&D – Mains	1.10% - 3.13%
Water Treatment	1.65% - 7.09%	T&D – Services	2.12% - 3.16%
General Plant	2.08% - 17.84%	T&D – Other	1.61% - 4.63%

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

(e) Preliminary Survey and Investigation (PS&I) Costs – In the design of water and wastewater systems that the Company ultimately intends to construct, own and operate certain expenditures are incurred to advance those project activities. These PS&I costs are recorded as deferred charges on the balance sheet because these costs are expected to be recovered through future rates charged to customers as the underlying projects are placed into service as utility plant. If it is subsequently determined that costs for a project recorded as PS&I are not recoverable through rates charged to our customers, the applicable PS&I costs are recorded as a charge to the income statement at that time.

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

Contributions in Aid of Construction (CIAC) – CIAC include direct non-refundable contributions of water utility plant and/or cash and the portion of CAC that becomes non-refundable.

CAC and CIAC are not depreciated in accordance with regulatory requirements. In addition, these amounts reduce the investment base for purposes of setting rates.

(g) Allowance for Funds Used During Construction (AFUDC) - Middlesex and its regulated subsidiaries capitalize AFUDC, which represents the cost of financing projects during construction. AFUDC is added to the construction costs of individual projects exceeding specific cost and construction period thresholds established for each company and then depreciated along with the rest of the utility plant's costs over its estimated useful life. For the years ended December 31, 2010, 2009 and 2008, approximately \$1.0 million, \$1.0 million and \$0.7 million, respectively of AFUDC was added to the cost of construction projects. AFUDC is calculated using each company's weighted cost of debt and equity as approved in their most recent respective regulatory rate order. The AFUDC rates for the years ended December 31, 2010, 2009 and 2008 for Middlesex and Tidewater are as follows:

	For The Year Ended December 31,		
	2010	2009	2008
Middlesex	7.54%	7.65%	7.65%
Tidewater	8.24%	8.24%	8.33%

(h) Accounts Receivable – We record bad debt expense based on historical write-offs combined with an evaluation of current conditions. The allowance for doubtful accounts was \$0.5 million and \$0.4 million at December 31, 2010 and December 31, 2009, respectively. Bad debt expense for the years ended December 31, 2010, 2009 and 2008 was \$0.6 million, \$0.6 million and \$0.2 million, respectively. Receivables not expected to be paid in 2011 are included as non-current assets in Operations and Developer Contracts Receivable.

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

Southern Shores is an un-metered system. Customers are billed a fixed service charge in advance at the beginning of each month and revenues are recognized as earned.

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

USA bills customers in advance on a quarterly or annual basis for its LineCareSM service line maintenance program. USA's advance billings are deferred and are recognized as earned.

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

(k) Income Taxes - Middlesex files a consolidated federal income tax return for the Company and income taxes are allocated based on the separate return method. Investment tax credits have been deferred and are amortized over the estimated useful life of the related property. For more information on income taxes, see Note 3 – Income Taxes.

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

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

(n) Recent Accounting Pronouncements

Topic 820, Fair Value Measurements and Disclosures - In January 2010, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2010-06, which amends Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. The ASU also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. Further, the ASU amends guidance on employers' disclosures about postretirement benefit plan assets under ASC 715 to require

that disclosures be provided by classes of assets instead of by major categories of assets. However, unlike the proposed ASU, the final ASU does not require entities to provide sensitivity disclosures. The FASB will consider whether to require sensitivity disclosures jointly with the International Accounting Standards Board as part of a new convergence project on fair value measurement and disclosures. Adoption of ASU 2010-06 had no impact on the Company's results of operations, cash flows or financial position.

(o) Regulatory Accounting - We maintain our books and records in accordance with accounting principles generally accepted in the United States of America. Middlesex and certain of its subsidiaries, which account for 90% of Operating Revenues and 98% of Total Assets, are subject to regulation in the state in which they operate. Those companies are required to maintain their accounts in accordance with regulatory authorities' rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance provided in FASB ASC Topic 980 *Regulated Operations* (Regulatory Accounting).

In accordance with Regulatory Accounting, costs and obligations are deferred if it is probable that these items will be recognized for rate-making purposes in future rates. Accordingly, we have recorded costs and obligations, which will be amortized over various future periods. Any change in the assessment of the probability of rate-making treatment will require us to change the accounting treatment of the deferred item. We have no reason to believe any of the deferred items that are recorded will be treated differently by the regulators in the future. For additional information, see Note 2 – Rate and Regulatory Matters.

(p) Postretirement Benefit Plans - We maintain a noncontributory defined benefit pension plan (Pension Plan) which covers substantially all active employees who were hired prior to March 31, 2007. In addition, the Company maintains an unfunded supplemental plan for its executive officers. The Company has a postretirement benefit plan other than pensions (Other Benefits Plan) for substantially all of its retired employees. Employees hired after March 31, 2007 are not eligible to participate in this plan. Coverage includes healthcare and life insurance.

The Company's costs for providing postretirement benefits are dependent upon numerous factors, including actual plan experience and assumptions of future experience. Postretirement benefit plan obligations and expense are determined based on investment performance, discount rates and various other demographic factors related to the population participating in the Company's postretirement benefit plans, all of which can change significantly in future years. For more information on the Company's Postretirement Benefit Plans, see Note 7 – Employee Benefit Plans.

Note 2 - Rate and Regulatory Matters

Rate Matters

In March 2010, a settlement was reached with respect to Middlesex's application with the NJBPU seeking permission to increase its base water rates. The NJBPU granted an increase in annual operating revenues of 13.57%, or \$7.8 million. The base water rate increase request was made to seek recovery of increased costs of operations, chemicals and fuel, electricity, taxes, labor and benefits, decreases in industrial and commercial customer demand patterns, as well as capital investment. The new base water rates are designed to recover these increased costs, as well as a return on invested capital in rate base of \$180.3 million based on a return on equity of 10.30%.

In September 2009, the DEPSC approved an overall 14.95% or \$3.0 million increase in Tidewater's base rates. This rate increase approval is based on a 10.0% return on equity.

A Distribution System Improvement Charge (DSIC) is a DEPSC approved rate-mechanism that allows water utilities to recover investment in non-revenue producing capital improvements to the water system between base rate proceedings. The following table summarizes Tidewater's DSIC for 2008-2010:

Period	DSIC %	Period	DSIC %
January 2008-June 2008	1.62%	April 2009 - December 2009	-
July 2008 - December 2008	2.94%	January 2010 - June 2010	1.11%
January 2009 - March 2009	5.25%	July 2010 - December 2010	1.07%

In December 2010, Tidewater received approval from the DEPSC to increase their DSIC from 1.07% to 1.34% effective January 1, 2011

In July 2009, Middlesex implemented a NJBPU approved Purchased Water Adjustment Clause (PWAC) tariff rate in order to recover increased costs of \$1.0 million to purchase untreated water from the New Jersey Water Supply Authority (NJWSA) and treated water from a non-affiliated regulated water utility. The PWAC rate reset to zero as part of the March 2010 Middlesex base rate increase. In January 2011, Middlesex filed an application with the NJBPU seeking permission to re-establish a PWAC and implement a tariff rate sufficient to recover increased costs of \$0.4 million to purchase treated water from a non-affiliated regulated water utility. We cannot predict whether the NJBPU will ultimately approve, deny, or reduce the amount of the request.

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented in January 2009. Under the terms of a contract with Southern Shores Homeowners Association, the increase cannot exceed the lesser of the regional Consumer Price Index or 3%.

In December 2008, Pinelands Water and Pinelands Wastewater implemented NJBPU approved base rate increases of 5.53% and 18.30%, respectively. These increases represent a total base rate increase of approximately \$0.2 million for Pinelands to offset increased costs associated with the operation and maintenance of their systems.

Regulatory Matters

We have recorded certain costs as regulatory assets because we expect full recovery of, or are currently recovering, these costs in the rates we charge customers. These deferred costs have been excluded from rate

base and, therefore, we are not earning a return on the unamortized balances. These items are detailed as follows:

Regulatory Assets	(Thousands of Dollars)		Remaining Recovery Periods
	December 31,		
	2010	2009	
Postretirement Benefits	\$ 25,786	\$ 21,167	Various
Income Taxes	12,551	11,356	Various
Tank Painting	136	168	4-9 years
Rate Cases and Other	298	390	Up to 2 years
Total	\$ 38,771	\$ 33,081	

Postretirement benefits include pension and other postretirement benefits that have been recorded on the Consolidated Balance Sheet in accordance with the guidance provided in *Topic 715, Compensation – Retirement Benefits*. These amounts represent obligations in excess of current funding, which the Company believes will be fully recovered in rates set by the regulatory authorities.

The recovery period for income taxes is dependent upon when the temporary differences between the tax and book treatment of various items reverse.

The Company uses composite depreciation rates for its regulated utility assets, which is currently an acceptable method under generally accepted accounting principles and is widely used in the utility industry. Historically, under the composite depreciation method, the anticipated costs of removing assets upon retirement are provided for over the life of those assets as a component of depreciation expense. The Company recovers certain asset retirement costs through rates charged to customers as an approved component of depreciation expense. As of December 31, 2010 and 2009, the Company has approximately \$7.4 million and \$6.7 million, respectively, of expected costs of removal recovered currently in rates in excess of actual costs incurred. These amounts are recorded as regulatory liabilities.

The Company is recovering in current rates acquisition premiums totaling \$0.7 million over the remaining lives of the underlying Utility Plant. These deferred costs have been included in rate base as utility plant and a return is being earned on the unamortized balances during the recovery periods. The Company expects to recover training costs of approximately \$0.7 million associated with implementation of a new information technology system in future rates. These costs are included in General Utility Plant.

Note 3 - Income Taxes

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

	(Thousands of Dollars)		
	Years Ended December 31,		
	2010	2009	2008
Income Tax at Statutory Rate	\$ 7,224	\$ 5,147	\$ 6,253
Tax Effect of:			
Utility Plant Related	(826)	(247)	(725)
State Income Taxes – Net	336	339	309
Employee Benefits	33	(86)	202
Other	19	7	17
Total Income Tax Expense	\$ 6,786	\$ 5,160	\$ 6,056

Income tax expense is comprised of the following:

	(Thousands of Dollars)		
	Years Ended December 31,		
	2010	2009	2008
Current:			
Federal	\$ 5,584	\$ (208)	\$ 4,651
State	481	35	392
Deferred:			
Federal	770	4,933	1,018
State	30	479	74
Investment Tax Credits	(79)	(79)	(79)
Total Income Tax Expense	\$ 6,786	\$ 5,160	\$ 6,056

The statutory review periods for income tax returns for the years prior to 2009 have been closed. An examination by the Internal Revenue Service of Middlesex's Federal income tax returns for 2007 and 2008 was completed during 2010 and resulted in a net refund, including interest, of less than \$0.1 million. An examination by the Internal Revenue Service of the Federal income tax returns for 2005 and 2006 was completed during 2008. The examination resulted in a net refund, including interest of approximately \$0.1 million. The refunds noted above were recorded to the appropriate current and deferred tax accounts and the interest was reported as other income. In the event that there are interest and penalties associated with income tax adjustments in future examinations, these amounts will be reported under interest expense and other expense, respectively. There are no unrecognized tax benefits resulting from prior period tax positions. The Company is not aware of any uncertain tax positions that could result in a future tax liability.

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

	(Thousands of Dollars)	
	December 31,	
	2010	2009
Utility Plant Related	\$ 32,010	\$ 31,942
Customer Advances	(3,840)	(3,914)
Employee Benefits	1,912	217
Investment Tax Credits (ITC)	1,225	1,303
Other	(391)	(457)
Total Deferred Tax Liability and ITC	\$ 30,916	\$ 29,091

Note 4 - Commitments and Contingent Liabilities

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

Middlesex also has an agreement with a non-affiliated regulated water utility for the purchase of treated water. This agreement, which expires February 27, 2016, provides for the minimum purchase of 3 mgd of treated water with provisions for additional purchases.

Purchased water costs are shown below:

Purchased Water	Years Ended December 31, (Millions of Dollars)		
	2010	2009	2008
Untreated	\$ 2.5	\$ 2.4	\$ 2.4
Treated	2.9	2.6	2.1
Total Costs	\$ 5.4	\$ 5.0	\$ 4.5

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

In connection with the agreement with Perth Amboy, Middlesex agreed to guarantee debt service payments on bonds issued by Perth Amboy. Those bonds have been refinanced by Perth Amboy and Middlesex is no longer a guarantor of any Perth Amboy debt.

Construction - The Company may spend up to \$22.9 million in 2011, \$18.0 million in 2012 and \$25.1 million in 2013 on its construction program. The actual amount and timing of capital expenditures is dependent on customer growth, residential new home construction and sales and project scheduling. There is no assurance that projected customer growth and residential new home construction and sales will occur.

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

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

Note 5 - Short-term Borrowings

Information regarding the Company's short-term borrowings for the years ended December 31, 2010 and 2009 is summarized below:

	(Millions of Dollars)	
	2010	2009
Established Lines at Year-End	\$ 58.0	\$ 53.0
Maximum Amount Outstanding	45.9	44.2
Average Outstanding	26.4	40.0
Notes Payable at Year-End	17.0	42.9
Weighted Average Interest Rate	1.58%	1.73%
Weighted Average Interest Rate at Year-End	1.53%	1.53%

The maturity dates for the Notes Payable as of December 31, 2010 are all in January 2011.

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

Note 6 - Capitalization

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

Common Stock

In June 2010, the Company sold and issued 1.9 million shares of common stock in a public offering that was priced at \$15.21 per share. The net proceeds of approximately \$27.8 million were used to repay certain of the Company's short-term debt outstanding.

The number of shares authorized under the Dividend Reinvestment and Common Stock Purchase Plan (DRP) is 2.3 million shares. The cumulative number of shares issued under the DRP at December 31, 2010, is 1.9 million.

The Company issues shares under a restricted stock plan for employees, which is described in Note 7 – Employee Benefit Plans.

The Company maintains a stock plan for its outside directors (the Outside Director Stock Compensation Plan). In 2010, 1,416 shares of common stock were granted and issued to the Company's outside directors under the Outside Director Stock Compensation Plan and 97,030 shares remain available for future awards. The maximum number of shares authorized for grant under the Outside Director Stock Compensation Plan is 0.1 million.

In the event dividends on the preferred stock are in arrears, no dividends may be declared or paid on the common stock of the Company. At December 31, 2010, no preferred stock dividends were in arrears.

Preferred Stock

If four or more quarterly dividends are in arrears, the preferred shareholders, as a class, are entitled to elect two members to the Board of Directors in addition to Directors elected by holders of the common stock. At December 31, 2010 and 2009, there were less than 0.1 million shares of preferred stock authorized and outstanding and there were no dividends in arrears.

The Company may not pay any dividends on its common stock unless full cumulative dividends to the preceding dividend date for all outstanding shares of preferred stock have been paid or set aside for payment. All such preferred dividends have been paid. In addition, if Middlesex were to liquidate, holders of preferred stock would be paid back the stated value of their preferred shares before any distributions could be made to common stockholders.

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

The conversion feature of the no par \$8.00 Series Cumulative and Convertible Preferred Stock allows the security holders to exchange one convertible preferred share for 13.714 shares of the Company's common stock. The preferred shares are convertible into common stock at the election of the security holder or Middlesex.

Long-term Debt

In December 2010, Middlesex issued \$4.0 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust (NJEIT) under the New Jersey State Revolving Fund (SRF) program. Middlesex closed on the first mortgage bonds designated as Series MM and NN in December 2010. Proceeds from the Series MM and NN bonds are included in Restricted Cash and may only be used for Middlesex's RENEW Program, which is our program to clean and cement unlined mains in the Middlesex system.

In February 2010, Tidewater closed on a \$1.1 million loan with the Delaware SRF. This loan allows, but does not obligate, Tidewater to draw down against a General Obligation Note for a specific project no later than July 31, 2011. The interest rate on any draw-down will be set at 3.45% with a final maturity of August 1, 2031 on the amount actually borrowed. In December 2010, the Company borrowed \$16.7 thousand under this loan.

In March 2009, Tidewater closed on a \$22.0 million DEPSC approved loan and immediately borrowed \$7.0 million at a rate of 6.59% with a final maturity in April 2029. In June 2009, Tidewater borrowed \$5.0 million at a rate of 7.05% with a final maturity in January 2030. In March 2010, Tidewater borrowed the remaining \$10.0 million at a rate of 5.69% with a final maturity in January 2030.

In November 2008, Middlesex issued \$3.5 million of first mortgage bonds through the NJEIT under the New Jersey SRF program. Middlesex closed on the first mortgage bonds designated as Series KK and LL in November 2008. Funds may only be used for Middlesex's RENEW Program.

First Mortgage Bonds Series S through W and Series DD are term bonds with single maturity dates subsequent to 2015. Principal repayments for all series of the Company's long-term debt extend beyond 2015. The aggregate annual principal repayment obligations for all long-term debt over the next five years are shown below:

Year	(Millions of Dollars) Annual Maturities
2011	\$ 4.4
2012	\$ 4.6
2013	\$ 4.6
2014	\$ 4.7
2015	\$ 4.8

The weighted average interest rate on all long-term debt at December 31, 2010 and 2009 was 5.13% and 5.16%, respectively. Except for the Amortizing Secured Notes, all of the Company's outstanding long-term debt has been issued through the New Jersey Economic Development Authority (\$57.5 million), the NJEIT program (\$32.5 million) and the Delaware SRF program (\$6.3 million).

Restricted cash includes proceeds from various New Jersey SRF loans. These funds are held in trusts and restricted for specific capital expenditures and debt service requirements. As discussed above, Series KK, LL, MM and NN proceeds can only be used for the applicable RENEW Program. All other bond issuance balances in restricted cash are for debt service requirements.

Substantially all of the Utility Plant of the Company is subject to the lien of its mortgage, which includes debt service and capital ratio covenants. The Company is in compliance with all of its mortgage covenants and restrictions.

Earnings Per Share

The following table presents the calculation of basic and diluted earnings per share (EPS) for the three years ended December 31, 2010. Basic EPS is computed on the basis of the weighted average number of shares outstanding. Diluted EPS assumes the conversion of both the Convertible Preferred Stock \$7.00 Series and \$8.00 Series.

	(In Thousands, Except per Share Amounts)					
	2010		2009		2008	
Basic:	Income	Shares	Income	Shares	Income	Shares
Net Income	\$ 14,330	14,654	\$ 9,977	13,454	\$ 12,208	13,317
Preferred Dividend	(207)		(208)		(218)	
Earnings Applicable to Common Stock	\$ 14,123	14,654	\$ 9,769	13,454	\$ 11,990	13,317
Basic EPS	\$ 0.96		\$ 0.73		\$ 0.90	
Diluted:						
Earnings Applicable to Common Stock	\$ 14,123	14,654	\$ 9,769	13,454	\$ 11,990	13,317
\$7.00 Series Dividend	97	166	97	166	97	167
\$8.00 Series Dividend	56	96	56	96	66	131
Adjusted Earnings Applicable to Common Stock	\$ 14,276	14,916	\$ 9,922	13,716	\$ 12,153	13,615
Diluted EPS	\$ 0.96		\$ 0.72		\$ 0.89	

Fair Value of Financial Instruments

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

	(Thousands of Dollars)			
	At December 31,			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
First Mortgage Bonds	\$ 89,037	\$ 85,405	\$ 87,230	\$ 84,429
State Revolving Bonds	\$ 919	\$ 937	\$ 1,061	\$ 1,091

For other long-term debt for which there was no quoted market price, it was not practicable to estimate their fair value. The carrying amount of these instruments was \$48.3 million and \$40.3 million at December 31, 2010 and 2009, respectively. Customer advances for construction have a carrying amount of \$21.3 million and \$20.8 million at December 31, 2010 and 2009, respectively. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

Note 7 - Employee Benefit Plans

Pension Benefits

The Company's Pension Plan covers substantially all active employees hired prior to March 31, 2007. Employees hired after March 31, 2007 are not eligible to participate in this plan, but can 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 contribution, the eligible employee must be employed by the Company on December 31st of the year to which the award relates. In addition, the Company maintains an unfunded supplemental plan for its executive officers. The Accumulated Benefit Obligation for the Company's Pension Plan at December 31, 2010 and 2009 was \$33.8 million and \$30.8 million, respectively.

Other Benefits

The Company's Other Benefits Plan covers substantially all of its retired employees. Employees hired after March 31, 2007 are not eligible to participate in this plan. Coverage includes healthcare and life insurance. Accrued retirement benefit costs are recorded each year.

The Company has recognized a deferred regulatory asset relating to the difference between the accrued retirement benefit costs and actual cash paid for plan premiums in years prior to 1998. Included in the regulatory asset is a transition obligation from adopting Statement of Financial Accounting Standard No.106, "Employers' Accounting for Postretirement Benefits Other than Pensions," on January 1, 1993. In addition to the recognition of annual accrued retirement benefit costs in rates, Middlesex is also recovering the transition obligation over 15 years. The regulatory asset related to this transition obligation at December 31, 2010 and 2009 was \$0.2 million and \$0.3 million, respectively.

Regulatory Treatment of Over/Underfunded Retirement Obligations

Because the Company is subject to regulation in the states in which it operates, it is required to maintain its accounts in accordance with the regulatory authority's rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance of FASB ASC Topic 980 *Regulated Operations*. Based on prior regulatory practice, and in accordance with the guidance in Topic 980, the Company records underfunded Pension Plan and Other Benefits Plan obligations, which otherwise would be recognized as Other Comprehensive Income under Topic 715, Compensation – Retirement Benefits, as a Regulatory Asset, and expects to recover those costs in rates charged to customers.

The Company uses a December 31 measurement date for all of its employee benefit plans. The table below sets forth information relating to the Company's Pension Plan and Other Benefits Plan for 2010 and 2009.

	December 31, (Thousands of Dollars)			
	Pension Plan		Other Benefits Plan	
	2010	2009	2010	2009
Change in Projected Benefit Obligation:				
Beginning Balance	\$ 38,311	\$ 34,352	\$ 22,736	\$ 18,771
Service Cost	1,396	1,372	1,025	891
Interest Cost	2,228	2,101	1,335	1,086
Actuarial Loss	2,022	2,217	5,032	2,508
Benefits Paid	(1,819)	(1,731)	(523)	(520)
Ending Balance	\$ 42,138	\$ 38,311	\$ 29,605	\$ 22,736
Change in Fair Value of Plan Assets:				
Beginning Balance	\$ 25,298	\$ 20,036	\$ 9,680	\$ 7,239
Actual Return on Plan Assets	3,054	4,110	910	1,066
Employer Contributions	3,456	2,883	2,823	1,895
Benefits Paid	(1,819)	(1,731)	(523)	(520)
Ending Balance	\$ 29,989	\$ 25,298	\$ 12,890	\$ 9,680
Funded Status	\$ (12,149)	\$ (13,013)	\$ (16,715)	\$ (13,056)
Amounts Recognized in the Consolidated Balance Sheets consist of:				
Current Liability	(302)	(346)	-	-
Noncurrent Liability	(11,847)	(12,667)	(16,715)	(13,056)
Net Liability Recognized	\$ (12,149)	\$ (13,013)	\$ (16,715)	\$ (13,056)

	Years Ended December 31, (Thousands of Dollars)					
	Pension Plan			Other Benefits Plan		
	2010	2009	2008	2010	2009	2008
Components of Net Periodic Benefit Cost						
Service Cost	\$ 1,396	\$ 1,372	\$ 1,248	\$ 1,025	\$ 891	\$ 775
Interest Cost	2,228	2,101	1,950	1,335	1,086	1,010
Expected Return on Plan Assets	(2,020)	(1,602)	(1,938)	(759)	(595)	(581)
Amortization of Net Transition Obligation	-	-	-	135	135	135
Amortization of Net Actuarial Loss	506	615	-	531	493	287
Amortization of Prior Service Cost	10	10	10	-	-	-
Net Periodic Benefit Cost	\$ 2,120	\$ 2,496	\$ 1,270	\$ 2,267	\$ 2,010	\$ 1,626

Amounts that are expected to be amortized from Regulatory Assets into Net Periodic Benefit Cost in 2011 are as follows:

	(Thousands of Dollars)	
	Pension Plan	Other Benefits Plan
Actuarial Loss	\$ 565	\$ 836
Prior Service Cost	10	-
Transition Obligation	-	135

The discount rate and compensation increase rate for determining our postretirement benefit plans' benefit obligations and costs as of December 31, 2010, 2009 and 2008, respectively, are as follows:

	2010	Pension Plan 2009	2008	2010	Other Benefits Plan 2009	2008
Weighted Average Assumptions:						
Expected Return on Plan Assets	7.50%	8.00%	8.00%	7.50%	7.50%	7.50%
Discount Rate for:						
Benefit Obligation	5.48%	5.95%	6.17%	5.48%	5.95%	6.12%
Benefit Cost	5.95%	6.17%	6.59%	5.95%	6.12%	6.59%
Compensation Increase for:						
Benefit Obligation	3.00%	3.50%	3.50%	3.00%	3.50%	3.50%
Benefit Cost	3.00%	3.50%	3.50%	3.00%	3.50%	3.50%

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

For the 2010 valuation, costs and obligations for our Other Benefits Plan assumed a 9.0% annual rate of increase in the per capita cost of covered healthcare benefits in 2011 with a decline of 1.0% per year for 2012-2014 and 0.5% per year for 2015-2016, resulting in an annual rate of increase in the per capita cost of covered healthcare benefits of 5% by year 2016.

A one-percentage point change in assumed healthcare cost trend rates would have the following effects on the Other Benefits Plan:

	(Thousands of Dollars)	
	Increase	Decrease
Effect on Current Year's Service and Interest Cost	\$ 461	\$ (360)
Effect on Projected Benefit Obligation	\$ 4,553	\$ (3,669)

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

Year	(Thousands of Dollars)	
	Pension Plan	Other Benefits Plan
2011	\$ 1,784	\$ 690
2012	1,794	811
2013	1,859	933
2014	1,864	1,066
2015	1,856	1,185
2016-2020	10,858	7,791
Totals	<u>\$ 20,015</u>	<u>\$ 12,476</u>

Benefit Plans Assets

The allocation of plan assets at December 31, 2010 and 2009 by asset category is as follows:

Asset Category	Pension Plan		Other Benefits Plan		Target	Range
	2010	2009	2010	2009		
Equity Securities	64.0%	59.2%	42.3%	40.4%	60%	30-65%
Debt Securities	31.7%	36.4%	53.8%	49.5%	38%	25-70%
Cash	4.0%	4.1%	3.1%	9.0%	2%	0-10%
Commodities	0.3%	0.3%	0.8%	1.1%	0%	0%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>		

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

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

Equity securities include Middlesex common stock in the amounts of \$0.7 million (2.4% of total plan assets) and \$0.7 million (2.7 % of total pension plan assets) at December 31, 2010 and 2009, respectively.

Fair Value Measurements

Accounting guidance provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in accessible active markets.
- Level 2 – Inputs to the valuation methodology that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of

the assets or liabilities. If the asset or liability has a specified contractual term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3- Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Certain investments in cash and cash equivalents, equity securities, and commodities are valued based on quoted market prices in active markets and are classified as Level 1 investments. Certain investments in cash and cash equivalents, equity securities and fixed income securities are valued using prices received from pricing vendors that utilize observable inputs and are therefore classified as Level 2 investments.

The following table presents Middlesex's Pension Plan assets measured and recorded at fair value within the fair value hierarchy as of December 31, 2010 (amounts in thousands):

	Level 1	Level 2	Level 3	Total
Common Trust Fund-Large Cap	\$ -	\$ 6,844	\$ -	\$ 6,844
Mutual Funds:				
Mid Cap Growth	717	-	-	717
Mid Cap Value	374	-	-	374
Foreign Small Mid Growth	255	-	-	255
Foreign Large Blend	599	-	-	599
Foreign Large Core	114	-	-	114
Foreign Large Growth	207	-	-	207
Diversified Emerging Markets	398	-	-	398
Preferred Stock Index	80	-	-	80
Money Market Funds:				
Cash	553	643	-	1,196
Equity Securities:				
Non-Financial Services	209	-	-	209
Financial Services	976	-	-	976
Utilities	1,555	-	-	1,555
Consumer Growth	1,447	-	-	1,447
Consumer Staples	937	-	-	937
Consumer Cyclicals	998	-	-	998
Industrial Resources	498	-	-	498
Capital Equipment	729	-	-	729
Technology	1,188	-	-	1,188
Energy	1,033	-	-	1,033
Other	25	-	-	25
Corporate Bonds	-	2,915	-	2,915
Mortgage-Backed Securities (1)	-	2,323	-	2,323
Asset-Backed Securities (1)	-	93	-	93
Agency/US/State/Municipal Debt	129	3,864	-	3,993
Sovereign/Non-US Debt	-	191	-	191
Commodities	95	-	-	95
Total Investments	\$ 13,116	\$ 16,873	\$ -	\$ 29,989

(1) Mortgage-backed securities represent AAA rated securities and substantially all of the asset-backed securities are highly-rated (Standard & Poor's rating of AA+), secured primarily by credit card, auto loan, and home equity receivables.

The following table presents Middlesex's Pension Plan assets measured and recorded at fair value within the fair value hierarchy as of December 31, 2009 (amounts in thousands):

	Level 1	Level 2	Level 3	Total
Common Trust Fund-Large Cap	\$ -	\$ 4,467	\$ -	\$ 4,467
Mutual Funds:				
Mid Cap Growth	509	-	-	509
Mid Cap Value	237	-	-	237
Foreign Small Mid Growth	191	-	-	191
Foreign Large Blend	450	-	-	450
Foreign Large Core	122	-	-	122
Foreign Large Growth	308	-	-	308
Diversified Emerging Markets	280	-	-	280
Money Market Funds:				
Cash	435	598	-	1,033
Equity Securities:				
Financial Services	1,026	-	-	1,026
Utilities	1,259	-	-	1,259
Consumer Staples	1,015	-	-	1,015
Consumer Cyclicals	1,209	-	-	1,209
Healthcare	733	-	-	733
Industrial Resources	773	-	-	773
Technology	1,594	-	-	1,594
Energy	809	-	-	809
Corporate Bonds	-	4,129	-	4,129
Mortgage-Backed Securities (1)	-	1,915	-	1,915
Asset-Backed Securities (1)	-	91	-	91
Agency/US/State/Municipal Debt	-	2,855	-	2,855
Sovereign/Non-US Debt	-	208	-	208
Commodities	85	-	-	85
Total Investments	\$ 11,035	\$ 14,263	\$ -	\$ 25,298

(1) Mortgage-backed securities represent AAA rated securities and substantially all of the asset-backed securities are highly-rated (Standard & Poor's rating of AA+), secured primarily by credit card, auto loan, and home equity receivables.

The following table presents Middlesex's Other Benefits Plan assets measured and recorded at fair value within the fair value hierarchy as of December 31, 2010 (amounts in thousands):

	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Small Cap Core	\$ 95	\$ -	\$ -	\$ 95
Mid Cap Growth	277	-	-	277
Mid Cap Value	259	-	-	259
Large Cap Core	3,002	-	-	3,002
Large Cap Growth	365	-	-	365
Large Cap Value	298	-	-	298
Foreign Small Mid Growth	246	-	-	246
Foreign Large Core	276	-	-	276
Foreign Large Growth	306	-	-	306
Diversified Emerging Markets	217	-	-	217
Preferred Stock Index	116	-	-	116
Money Market Funds:				
Cash	-	399	-	399
Agency/US/State/Municipal Debt	765	6,170	-	6,935
Commodities	99	-	-	99
Total Investments	\$ 6,321	\$ 6,569	\$ -	\$ 12,890

The following table presents Middlesex's Other Benefits Plan assets measured and recorded at fair value within the fair value hierarchy as of December 31, 2009 (amounts in thousands):

	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Small Cap Core	\$ 76	\$ -	\$ -	\$ 76
Mid Cap Growth	227	-	-	227
Mid Cap Value	109	-	-	109
Large Cap Core	2,121	-	-	2,121
Large Cap Growth	616	-	-	616
Foreign Small Mid Growth	230	-	-	230
Foreign Large Core	160	-	-	160
Foreign Large Growth	240	-	-	240
Diversified Emerging Markets	135	-	-	135
Money Market Funds:				
Cash	-	873	-	873
Agency/US/State/Municipal Debt	-	4,792	-	4,792
Commodities	101	-	-	101
Total Investments	\$ 4,015	\$ 5,665	\$ -	\$ 9,680

Benefit Plans Contributions

For the Pension Plan, Middlesex made total cash contributions of \$3.5 million in 2010 and expects to make cash contributions of approximately \$2.7 million in 2011.

For the Other Benefits Plan, Middlesex made total cash contributions of \$2.8 million in 2010 and expects to make contributions of approximately \$2.8 million in 2011.

401(k) Plan

The Company has a 401(k) defined contribution plan, which covers substantially all employees with more than 1,000 hours of service. Under the terms of the Plan, the Company matches 100% of a participant's contributions, which do not exceed 1% of a participant's compensation, plus 50% of a participant's contributions exceeding 1%, but not more than 6%. The Company's matching contributions were \$0.5 million for each of the years ended December 31, 2010, 2009 and 2008.

For those employees hired after March 31, 2007 and still employed on December 31, 2010, the Company approved and will fund discretionary contribution of \$0.2 million, which was based on 5.0% of eligible 2010 compensation. For the years ended December 31, 2009 and 2008, the Company made discretionary contributions of \$0.1 million, respectively, for those employees hired after March 31, 2007.

Stock-Based Compensation

The Company has a stock compensation plan for its employees (the 2008 Restricted Stock Plan). The Company maintains an escrow account for 0.1 million shares of the Company's common stock for the 2008 Restricted Stock Plan. 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 maximum number of shares authorized for grant under the 2008 Restricted Stock Plan is 0.3 million shares, for which 0.2 million remain as unissued shares.

The Company recognizes compensation expense at fair value for the restricted stock awards in accordance with FASB ASC Topic 715, Compensation – Retirement Benefits. Compensation expense is determined by the market value of the stock on the date of the award and is being amortized over a five-year period.

The following table presents information on the 2008 Restricted Stock Plan:

	Shares (thousands)	Unearned Compensation (thousands)	Weighted Average Grant Price
Balance, January 1, 2008	71	\$ 861	
Granted	22	377	\$ 17.30
Vested	(12)	-	
Forfeited	-	(5)	
Amortization of Compensation Expense	-	(305)	
Balance, December 31, 2008	81	\$ 928	
Granted	30	448	\$ 15.11
Vested	(17)	-	
Forfeited	(1)	(6)	
Amortization of Compensation Expense	-	(380)	
Balance, December 31, 2009	93	\$ 990	
Granted	14	239	\$ 16.97
Vested	(13)	-	
Forfeited	-	-	
Amortization of Compensation Expense	-	(338)	
Balance, December 31, 2010	94	\$ 891	

The fair value of vested restricted shares was \$0.2 million for each of the years ended December 31, 2010, 2009 and December 31, 2008.

Note 8 – Business Segment Data

The Company has identified two reportable segments. One is the regulated business of collecting, treating and distributing water on a retail and wholesale basis to residential, commercial, industrial and fire protection customers in parts of New Jersey, Delaware and Pennsylvania. This segment also includes regulated wastewater systems in New Jersey and Delaware. The Company is subject to regulations as to its rates, services and other matters by the states of New Jersey, Delaware and Pennsylvania with respect to utility service within these states. The other segment is primarily comprised of non-regulated contract services for the operation and maintenance of municipal and private water and wastewater systems in New Jersey and Delaware.

Inter-segment transactions relating to operational costs are treated as pass-through expenses. Finance charges on inter-segment loan activities are based on interest rates that are below what would normally be charged by a third party lender.

	(Thousands of Dollars)		
	Years Ended December 31,		
Operations by Segments:	2010	2009	2008
Revenues:			
Regulated	\$ 92,378	\$ 80,910	\$ 81,118
Non – Regulated	10,937	10,857	10,327
Inter-segment Elimination	(580)	(524)	(407)
Consolidated Revenues	\$ 102,735	\$ 91,243	\$ 91,038
Operating Income:			
Regulated	\$ 24,815	\$ 18,117	\$ 22,132
Non – Regulated	1,782	2,044	1,887
Consolidated Operating Income	\$ 26,597	\$ 20,161	\$ 24,019
Depreciation:			
Regulated	\$ 9,093	\$ 8,401	\$ 7,798
Non – Regulated	151	158	124
Consolidated Depreciation	\$ 9,244	\$ 8,559	\$ 7,922
Other Income, Net:			
Regulated	\$ 1,265	\$ 1,565	\$ 1,077
Non – Regulated	313	337	387
Inter-segment Elimination	(134)	(176)	(162)
Consolidated Other Income, Net	\$ 1,444	\$ 1,726	\$ 1,302
Interest Expense:			
Regulated	\$ 6,925	\$ 6,733	\$ 6,981
Non – Regulated	134	193	238
Inter-segment Elimination	(134)	(176)	(162)
Consolidated Interest Charges	\$ 6,925	\$ 6,750	\$ 7,057
Net Income:			
Regulated	\$ 13,152	\$ 8,652	\$ 10,976
Non – Regulated	1,178	1,325	1,232
Consolidated Net Income	\$ 14,330	\$ 9,977	\$ 12,208
Capital Expenditures:			
Regulated	\$ 29,344	\$ 20,104	\$ 29,095
Non – Regulated	260	24	1,241
Total Capital Expenditures	\$ 29,604	\$ 20,128	\$ 30,336
	As of	As of	
	December 31,	December 31,	
	2010	2009	
Assets:			
Regulated	\$ 486,918	\$ 451,734	
Non – Regulated	8,116	11,022	
Inter-segment Elimination	(5,849)	(4,670)	
Consolidated Assets	\$ 489,185	\$ 458,086	

Note 9 - Quarterly Operating Results - Unaudited

Operating results for each quarter of 2010 and 2009 are as follows:

2010	(Thousands of Dollars, Except per Share Data)					Total
	1 st	2 nd	3 rd	4 th		
Operating Revenues	\$ 21,645	\$ 26,538	\$ 29,585	\$ 24,967	\$ 102,735	
Operating Income	3,288	7,894	10,021	5,394	26,597	
Net Income	1,560	4,424	5,736	2,610	14,330	
Basic Earnings per Share	\$ 0.11	\$ 0.31	\$ 0.37	\$ 0.17	\$ 0.96	
Diluted Earnings per Share	\$ 0.11	\$ 0.31	\$ 0.37	\$ 0.17	\$ 0.96	

2009	(Thousands of Dollars, Except per Share Data)					Total
	1 st	2 nd	3 rd	4 th		
Operating Revenues	\$ 20,583	\$ 23,083	\$ 25,498	\$ 22,079	\$ 91,243	
Operating Income	3,002	5,547	7,324	4,288	20,161	
Net Income	1,361	2,846	4,027	1,743	9,977	
Basic Earnings per Share	\$ 0.10	\$ 0.21	\$ 0.30	\$ 0.12	\$ 0.73	
Diluted Earnings per Share	\$ 0.10	\$ 0.21	\$ 0.29	\$ 0.12	\$ 0.72	

The information above, in the opinion of the Company, includes all adjustments consisting only of normal recurring accruals necessary for a fair presentation of such amounts. The business of the Company is subject to seasonal fluctuation with the peak period usually occurring during the summer months. The quarterly earnings per share amounts above may differ from previous filings due to the effects of rounding.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

(1) 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.

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 for the quarter ended December 31, 2010. Based upon that evaluation the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded:

- (a) Disclosure controls and procedures were effective as of the end of the period covered by this report.
- (b) No changes in internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Accordingly, management believes the consolidated financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

(2) Management's Report on Internal Control Over Financial Reporting

The management of Middlesex Water Company (Middlesex or the Company) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13A-15(f) and 15d-15(f). Middlesex's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors of adequate preparation and fair presentation of the published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the adequacy of financial statement preparation and presentation. Middlesex's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on our assessment, we believe that as of December 31, 2010, the Company's internal control over financial reporting is operating as designed and is effective based on those criteria.

Middlesex's independent registered public accounting firm has audited the effectiveness of our internal control over financial reporting as of December 31, 2010 as stated in their report which is included herein.

/s/ Dennis W. Doll
Dennis W. Doll
Chairman of the Board, President and Chief
Executive Officer

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

Iselin, New Jersey
March 9, 2011

(3) Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Middlesex Water Company

We have audited Middlesex Water Company's (the "Company") internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Middlesex Water Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Middlesex Water Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and consolidated statements of capital stock and long-term debt and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows of Middlesex Water Company and our report dated March 9, 2011 expressed an unqualified opinion.

/s/ ParenteBeard LLC

Reading, Pennsylvania
March 9, 2011

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information with respect to Directors of Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2011 Annual Meeting of Stockholders and is incorporated herein by reference.

Information regarding the Executive Officers of Middlesex Water Company is included under Item 1. in Part I of this Annual Report.

Item 11. Executive Compensation.

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2011 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2011 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2011 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2011 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

1. The following Financial Statements and Supplementary Data are included in Part II- Item 8. of this Annual Report:

Consolidated Balance Sheets at December 31, 2010 and 2009.

Consolidated Statements of Income for each of the three years in the period ended December 31, 2010.

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2010.

Consolidated Statements of Capital Stock and Long-term Debt at December 31, 2010 and 2009.

Consolidated Statements of Common Stockholders' Equity and Comprehensive Income for each of the three years in the period ended December 31, 2010.

Notes to Consolidated Financial Statements.

2. Financial Statement Schedules

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

3. Exhibits

See Exhibit listing immediately following the signature page.

SIGNATURES

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

MIDDLESEX WATER COMPANY

By: /s/ Dennis W. Doll
Dennis W. Doll
Chairman of the Board, President, Chief Executive Officer and Director

Date: March 9, 2011

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the registrant and in the capacities on March #, 2011.

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

By: /s/ Dennis W. Doll
Dennis W. Doll
Chairman of the Board, President, Chief Executive Officer and Director
(Principal Executive Officer)

By: /s/ James F. Cosgrove Jr.
James F. Cosgrove Jr.
Director

By: /s/ John C. Cutting
John C. Cutting
Director

By: /s/ Steven M. Klein
Steven M. Klein
Director

By: /s/ Amy B. Mansue
Amy B. Mansue
Director

By: /s/ John R. Middleton, M.D.
John R. Middleton, M.D.
Director

By: /s/ Walter G. Reinhard
Walter G. Reinhard
Director

By: /s/ Jeffries Shein
Jeffries Shein
Director

By: /s/ J. Richard Tompkins
J. Richard Tompkins
Director

EXHIBIT INDEX

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

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
3.1	Certificate of Amendment to the Restated Certificate of Incorporation, filed with the State of New Jersey on June 19, 1997, included as Exhibit 3.1 to the Company's Current Report on Form 8-K filed April 30, 2010.		
3.2	Certificate of Amendment to the Restated Certificate of Incorporation, filed with the State of New Jersey on May 27, 1998, filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.		
3.3	Certificate of Correction of Middlesex Water Company filed with the State of New Jersey on April 30, 1999, filed as Exhibit 3.3 of 2003 Form 10-K/A-2.		
3.4	Certificate of Amendment to the Restated Certificate of Incorporation Middlesex Water Company, filed with the State of New Jersey on February 17, 2000, filed as Exhibit 3.4 of 2003 Form 10-K/A-2.		
3.5	Certificate of Amendment to the Restated Certificate of Incorporation Middlesex Water Company, filed with the State of New Jersey on June 5, 2002, filed as Exhibit 3.5 of 2003 Form 10-K/A-2.		
3.6	Certificate of Amendment to the Restated Certificate of Incorporation, filed with the State of New Jersey on June 10, 1998, filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.		
3.7	Bylaws of the Company, as amended, filed as Exhibit 4.1 of 2010 Second Quarter Form 10-Q.		
4.1	Form of Common Stock Certificate.	2-55058	2(a)
10.1	Copy of Purchased Water Agreement between the Company and Elizabethtown Water Company, filed as Exhibit 10 of 2006 First Quarter Form 10-Q.		
10.2	Copy of Mortgage, dated April 1, 1927, between the Company and Union County Trust Company, as Trustee, as supplemented by Supplemental Indentures, dated as of October 1, 1939 and April 1, 1949.	2-15795	4(a)-4(f)
10.3	Copy of Supplemental Indenture, dated as of July 1, 1964 and June 15, 1991, between the Company and Union County Trust Company, as Trustee.	33-54922	10.4-10.9
10.4	Copy of Supply Agreement, dated as of November 17, 1986, between the Company and the Old Bridge Municipal Utilities Authority.	33-31476	10.12

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Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.5	Copy of Supply Agreement, dated as of July 14, 1987, between the Company and the Marlboro Township Municipal Utilities Authority, as amended.	33-31476	10.13
10.6	Copy of Supply Agreement, dated as of February 11, 1988, with modifications dated February 25, 1992, and April 20, 1994, between the Company and the Borough of Sayreville filed as Exhibit No. 10.11 of 1994 First Quarter Form 10-Q.		
10.7	Copy of Water Purchase Contract, dated as of September 25, 2003, between the Company and the New Jersey Water Supply Authority, filed as Exhibit No. 10.7 of 2003 Form 10-K.		
10.8	Copy of Treating and Pumping Agreement, dated April 9, 1984, between the Company and the Township of East Brunswick.	33-31476	10.17
10.9	Copy of Supply Agreement, dated June 4, 1990, between the Company and Edison Township.	33-54922	10.24
10.10	Copy of amended Supply Agreement, between the Company and the Borough of Highland Park, filed as Exhibit No. 10.1 of 2006 First Quarter Form 10-Q.		
(t)10.11	Copy of Supplemental Executive Retirement Plan, filed as Exhibit 10.13 of 1999 Third Quarter Form 10-Q.		
(t)10.12(a)	Copy of 2008 Restricted Stock Plan, filed as Appendix A to the Company's Definitive Proxy Statement, dated and filed April 11, 2008.		
(t)10.12(b)	Copy of 2008 Outside Director Stock Compensation Stock Plan, filed as Appendix B to the Company's Definitive Proxy Statement, dated and filed April 11, 2008.		
(t)10.13(a)	Change in Control Termination Agreement between Middlesex Water Company and Dennis W. Doll, filed as Exhibit 10.13(a) of the 2008 Form 10-K.		
(t)10.13(b)	Change in Control Termination Agreement between Middlesex Water Company and A. Bruce O'Connor, filed as Exhibit 10.13(b) of the 2008 Form 10-K.		
(t)10.13(c)	Change in Control Termination Agreement between Middlesex Water Company and Richard M. Risoldi, filed as Exhibit 10.13(d) of the 2008 Form 10-K.		
(t)10.13(d)	Change in Control Termination Agreement between Middlesex Water Company and Kenneth J. Quinn, filed as Exhibit 10.13(e) of the 2008 Form 10-K.		
(t)10.13(e)	Change in Control Termination Agreement between Middlesex Water Company and James P. Garrett, filed as Exhibit 10.13(f) of the 2008 Form 10-K.		

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Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
(t)10.13(f)	Change in Control Termination Agreement between Tidewater Utilities, Inc. and Gerard L. Esposito), filed as Exhibit 10.13(g) of the 2008 Form 10-K.		
(t)10.13(g)	Change in Control Termination Agreement between Middlesex Water Company and Bernadette M. Sohler), filed as Exhibit 10.13(h) of the 2008 Form 10-K.		
10.14	Copy of Transmission Agreement, dated October 16, 1992, between the Company and the Township of East Brunswick.	33-54922	10.23
10.15	Copy of Supplemental Indentures, dated September 1, 1993, (Series S & T) and January 1, 1994, (Series V), between the Company and United Counties Trust Company, as Trustee, filed as Exhibit No. 10.22 of 1993 Form 10-K.		
10.16	Copy of Trust Indentures, dated September 1, 1993, (Series S & T) and January 1, 1994, (Series V), between the New Jersey Economic Development Authority and First Fidelity Bank (Series S & T), as Trustee, and Midlantic National Bank (Series V), as Trustee, filed as Exhibit No. 10.23 of 1993 Form 10-K.		
10.17	Copy of Supplemental Indenture dated October 15, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Loan Agreement dated November 1, 1998 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series X), filed as Exhibit No. 10.22 of the 1998 Third Quarter Form 10-Q.		
10.18	Copy of Supplemental Indenture dated October 15, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Loan Agreement dated November 1, 1998 between the State of New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series Y), filed as Exhibit No. 10.23 of the 1998 Third Quarter Form 10-Q.		
10.19	Copy of Operation, Maintenance and Management Services Agreement dated January 1, 1999 between the Company City of Perth Amboy, Middlesex County Improvement Authority and Utility Service Affiliates, Inc.	333-66727	10.24
10.20	Copy of Supplemental Indenture dated October 15, 1999 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 1999 between the State of New Jersey and Middlesex Water Company (Series Z), filed as Exhibit No. 10.25 of the 1999 Form 10-K.		

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Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.21	Copy of Supplemental Indenture dated October 15, 1999 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 1999 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series AA), filed as Exhibit No. 10.26 of the 1999 Form 10-K.		
10.22	Copy of Supplemental Indenture dated October 15, 2001 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 2001 between the State of New Jersey and Middlesex Water Company (Series BB). Filed as Exhibit No. 10.22 of the 2001 Form 10-K.		
10.23	Copy of Supplemental Indenture dated October 15, 2001 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 2001 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series CC). Filed as Exhibit No. 10.22 of the 2001 Form 10-K.		
10.24	Copy of Supplemental Indenture dated January 15, 2002 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated January 1, 2002 between the New Jersey Economic Development Authority and Middlesex Water Company (Series DD), filed as Exhibit No. 10.24 of the 2001 Form 10-K.		
10.25	Copy of Supplemental Indenture dated March 1, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Trust Indenture dated March 1, 1998 between the New Jersey Economic Development Authority and PNC Bank, National Association, as Trustee (Series W), filed as Exhibit No. 10.21 of the 1998 Third Quarter Form 10-Q.		
10.26	Copy of Supplemental Indenture dated October 15, 2004 between Middlesex Water Company and Wachovia Bank, as Trustee and copy of Loan Agreement dated November 1, 2004 between the State of New Jersey and Middlesex Water Company (Series EE), filed as Exhibit No. 10.26 of the 2004 Form 10-K.		
10.27	Copy of Supplemental Indenture dated October 15, 2004 between Middlesex Water Company and Wachovia Bank, as Trustee and copy of Loan Agreement dated November 1, 2004 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series FF), filed as Exhibit No. 10.27 of the 2004 Form 10-K.		

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Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.28	Copy of Promissory Notes and Amendment to Combination Water Utility Real Estate Mortgage and Security Agreement, by Tidewater Utilities, Inc., Dated March 19, 2009, filed as Exhibit No. 10.28 of the 2009 First Quarter Form 10-Q.		
10.29	Copy of Supply Agreement, between the Company and the City of Rahway, filed as Exhibit No. 10.2 of 2006 First Quarter Form 10-Q.		
10.30	Copy of Supplemental Indenture dated October 15, 2006 between Middlesex Water Company and U.S. Bank National Association, as Trustee and copy of Loan Agreement dated November 1, 2006 between the State of New Jersey and Middlesex Water Company (Series GG), filed as Exhibit No. 10.30 of the 2006 Form 10-K.		
10.31	Copy of Supplemental Indenture dated October 15, 2006 between Middlesex Water Company and U.S. Bank National Association, as Trustee and copy of Loan Agreement dated November 1, 2006 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series HH), filed as Exhibit No. 10.31 of the 2006 Form 10-K.		
10.32	Copy of Loan Agreement By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of November 1, 2007 (Series II), filed as Exhibit No. 10.32 of the 2007 Form 10-K.		
10.33	Copy of Loan Agreement By and Between The State of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection, and Middlesex Water Company dated as of November 1, 2007 (Series JJ), filed as Exhibit 10.33 of the 2007 Form 10-K.		
10.34	Copy of Loan Agreement By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of November 1, 2008 (Series KK), filed as Exhibit 10.34 of the 2008 Form 10-K.		
10.35	Copy of Loan Agreement By and Between The State of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection, and Middlesex Water Company dated as of November 1, 2008 (Series LL)), filed as Exhibit 10.35 of the 2008 Form 10-K.		
10.36	Registration Statement, Form S-3, under Securities Act of 1933 filed July 23, 2009, relating to the Dividend Reinvestment and Common Stock Purchase Plan.	333-160757	
10.37	Amended and Restated Line of Credit Note and PNC Bank, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed April 30, 2010		

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Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.38	Uncommitted Line of Credit Letter Agreement and Master Promissory Note between registrant and Bank of America, N.A., filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 30, 2010.		
10.39	Uncommitted Line of Credit Letter Agreement between registrant's wholly-owned subsidiary Utility Services Affiliates (Perth Amboy) Inc. and Bank of America, N.A., filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed April 30, 2010.		
10.40	Promissory Note for a committed line of credit between registrant's wholly-owned subsidiary Tidewater Utilities, Inc. and CoBank, ACB., filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed April 30, 2010.		
*10.41	Copy of Loan Agreement By and Between The state of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection and Middlesex Water Company, dated as of December 1, 2010 (Series MM), filed as Exhibit 10.41 of the 2010 Form 10-K.		
*10.42	Copy of Loan Agreement By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of December 1, 2010 (Series NN), filed as Exhibit 10.42 of the 2010 Form 10-K.		
*21	Middlesex Water Company Subsidiaries.		
*23.1	Consent of Independent Registered Public Accounting Firm, ParenteBeard LLC.		
*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.		
*32.1	Section 906 Certification by A. Bruce O'Connor pursuant to 18 U.S.C. §1350.		

LOAN AGREEMENT

BY AND BETWEEN

NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST

AND

MIDDLESEX WATER COMPANY

DATED AS OF DECEMBER 1, 2010

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NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST LOAN AGREEMENT

THIS LOAN AGREEMENT, made and entered into as of December 1, 2010, by and between the NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST, a public body corporate and politic with corporate succession, and the Borrower (capitalized terms used in this Loan Agreement shall have, unless the context otherwise requires, the meanings ascribed thereto in Section 1.01 hereof);

WITNESSETH THAT:

WHEREAS, the Trust, in accordance with the Act, the Bond Resolution and a financial plan approved by the State Legislature in accordance with Sections 22 and 22.1 of the Act, will issue its Trust Bonds on or prior to the Loan Closing for the purpose of making the Loan to the Borrower and the Loans to the Borrowers from the proceeds of the Trust Bonds to finance a portion of the Costs of Environmental Infrastructure Facilities;

WHEREAS, the Borrower has, in accordance with the Act and the Regulations, made timely application to the Trust for a Loan to finance a portion of the Costs of the Project;

WHEREAS, the State Legislature, in accordance with Sections 20 and 20.1 of the Act, has in the form of an appropriations act approved a project priority list that includes the Project and that authorizes an expenditure of proceeds of the Trust Bonds to finance a portion of the Costs of the Project;

WHEREAS, the Trust has approved the Borrower's application for a Loan from available proceeds of the Trust Bonds to finance a portion of the Costs of the Project;

WHEREAS, in accordance with the applicable Bond Act (as defined in the Fund Loan Agreement), and the Regulations, the Borrower has been awarded a Fund Loan for a portion of the Costs of the Project; and

WHEREAS, the Borrower, in accordance with the Act, the Regulations, the Business Corporation Law and all other applicable law, will issue a Borrower Bond to the Trust evidencing said Loan at the Loan Closing.

NOW, THEREFORE, for and in consideration of the award of the Loan by the Trust, the Borrower agrees to complete the Project and to perform under this Loan Agreement in accordance with the conditions, covenants and procedures set forth herein and attached hereto as part hereof, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions.

(a) The following terms as used in this Loan Agreement shall, unless the context clearly requires otherwise, have the following meanings:

“Act” means the “New Jersey Environmental Infrastructure Trust Act”, constituting Chapter 334 of the Pamphlet Laws of 1985 of the State (codified at N.J.S.A. 58:11B-1 *et seq.*), as the same may from time to time be amended and supplemented.

“Administrative Fee” means that portion of Interest on the Loan or Interest on the Borrower Bond payable hereunder as an annual fee of up to four-tenths of one percent (.40%) of the initial principal amount of the Loan or such lesser amount, if any, as may be authorized by any act of the State Legislature and as the Trust may approve from time to time.

“Authorized Officer” means, in the case of the Borrower, any person or persons authorized pursuant to a resolution of the board of directors of the Borrower to perform any act or execute any document relating to the Loan, the Borrower Bond or this Loan Agreement.

“Bond Counsel” means a law firm appointed or approved by the Trust, as the case may be, having a reputation in the field of municipal law whose opinions are generally acceptable by purchasers of municipal bonds.

“Borrower” means the corporation that is a party to and is described in Schedule A to this Loan Agreement, and its successors and assigns

“Borrower Bond” means the general obligation bond, note, debenture or other evidence of indebtedness, authorized, executed, attested and delivered by the Borrower to the Trust and, if applicable, authenticated on behalf of the Borrower to evidence the Loan, a specimen of which is attached hereto as Exhibit D and made a part hereof.

“Borrowers” means any other Local Government Unit or Private Entity (as such terms are defined in the Regulations) authorized to construct, operate and maintain Environmental Infrastructure Facilities that have entered into Loan Agreements with the Trust pursuant to which the Trust will make Loans to such recipients from moneys on deposit in the Project Fund, excluding the Project Loan Account.

“Business Corporation Law” means the “New Jersey Business Corporation Act”, constituting Chapter 263 of the Pamphlet Laws of 1968 of the State (codified at N.J.S.A. 14A:1-1, *et seq.*), as the same may from time to time be amended and supplemented.

“Code” means the Internal Revenue Code of 1986, as the same may from time to time be amended and supplemented, including any regulations promulgated thereunder, any successor code thereto and any administrative or judicial interpretations thereof.

“Costs” means those costs that are eligible, reasonable, necessary, allocable to the Project and permitted by generally accepted accounting principles, including Allowances and Building Costs (as defined in the Regulations), as shall be determined on a project-specific basis in accordance with the Regulations as set forth in Exhibit B hereto, as the same may be amended by subsequent eligible costs as evidenced by a certificate of an authorized officer of the Trust.

“Debt Service Reserve Fund” means the Debt Service Reserve Fund, if any, as defined in the Bond Resolution.

“Department” means the New Jersey Department of Environmental Protection

“Environmental Infrastructure Facilities” means Water Supply Facilities (as such terms are defined in the Regulations).

“Environmental Infrastructure System” means the Environmental Infrastructure Facilities of the Borrower, including the Project, described in Exhibit A-1 attached hereto and made a part hereof for which the Borrower is borrowing the Loan under this Loan Agreement.

“Event of Default” means any occurrence or event specified in Section 5.01 hereof.

“Excess Project Funds” shall have the meaning set forth in Section 3.03A hereof.

“Fund Loan” means the loan made to the Borrower by the State, acting by and through the Department, pursuant to the Fund Loan Agreement dated as of December 1, 2010 by and between the Borrower and the State, acting by and through the Department, to finance or refinance a portion of the Costs of the Project.

“Fund Loan Agreement” means the loan agreement dated as of December 1, 2010 by and between the Borrower and the State, acting by and through the Department, regarding the terms and conditions of the Fund Loan.

“Interest on the Loan” or **“Interest on the Borrower Bond”** means the sum of (i) the Interest Portion, (ii) the Administrative Fee, and (iii) any late charges incurred hereunder.

“Interest Portion” means that portion of Interest on the Loan or Interest on the Borrower Bond payable hereunder that is necessary to pay the Borrower’s proportionate share of interest on the Trust Bonds (i) as set forth in Exhibit A-2 hereof under the column heading entitled “Interest”, or (ii) with respect to any prepayment of Trust Bond Loan Repayments in accordance with Section 3.07 or 5.03 hereof, to accrue on any principal amount of Trust Bond Loan Repayments to the date of the optional redemption or acceleration, as the case may be, of the Trust Bonds allocable to such prepaid or accelerated Trust Bond Loan Repayment.

“Loan” means the loan made by the Trust to the Borrower to finance or refinance a portion of the Costs of the Project pursuant to this Loan Agreement, as further described in Schedule A attached hereto.

“Loan Agreement” means this Loan Agreement, including Schedule A and the Exhibits attached hereto, as it may be supplemented, modified or amended from time to time in accordance with the terms hereof and of the Bond Resolution.

“Loan Agreements” means any other loan agreements entered into by and between the Trust and one or more of the Borrowers pursuant to which the Trust will make Loans to such Borrowers from moneys on deposit in the Project Fund, excluding the Project Loan Account, financed with the proceeds of the Trust Bonds.

“Loan Closing” means the date upon which the Trust shall issue and deliver the Trust Bonds and the Borrower shall deliver its Borrower Bond, as previously authorized, executed, attested and, if applicable, authenticated, to the Trust.

“Loan Repayments” means the sum of (i) Trust Bond Loan Repayments, (ii) the Administrative Fee, and (iii) any late charges incurred hereunder.

“Loan Term” means the term of this Loan Agreement provided in Sections 3.01 and 3.03 hereof and in Exhibit A-2 attached hereto and made a part hereof.

“Loans” means the loans made by the Trust to the Borrowers under the Loan Agreements from moneys on deposit in the Project Fund, excluding the Project Loan Account.

“Master Program Trust Agreement” means that certain Master Program Trust Agreement, dated as of November 1, 1995, by and among the Trust, the State, United States Trust Company of New York, as Master Program Trustee thereunder, The Bank of New York (NJ), in several capacities thereunder, and First Fidelity Bank, N.A. (predecessor to Wachovia Bank, National Association), in several capacities thereunder, as supplemented by that certain Agreement of Resignation of Outgoing Master Program Trustee, Appointment of Successor Master Program Trustee and Acceptance Agreement, dated as of November 1, 2001, by and among United States Trust Company of New York, as Outgoing Master Program Trustee, State Street Bank and Trust Company, N.A. (predecessor to U.S. Bank Trust National Association), as Successor Master Program Trustee, and the Trust, as the same may be amended and supplemented from time to time in accordance with its terms.

“Official Statement” means the Official Statement relating to the issuance of the Trust Bonds.

“Preliminary Official Statement” means the Preliminary Official Statement relating to the issuance of the Trust Bonds.

“Prime Rate” means the prevailing commercial interest rate announced by the Trustee from time to time in the State as its prime lending rate.

“Project” means the Environmental Infrastructure Facilities of the Borrower described in Exhibit A-1 attached hereto and made a part hereof, which constitutes a project for which the Trust is permitted to make a loan to the Borrower pursuant to the Act, the Regulations and the Bond Resolution, all or a portion of the Costs of which is financed or refinanced by the Trust through the making of the Loan under this Loan Agreement and which may be identified under

either the Drinking Water or Clean Water Project Lists with the Project Number specified in Exhibit A-1 attached hereto.

“Project Fund” means the Project Fund as defined in the Bond Resolution.

“Project Loan Account” means the project loan account established on behalf of the Borrower in the Project Fund in accordance with the Bond Resolution to finance all or a portion of the Costs of the Project.

“Regulations” means the rules and regulations, as applicable, now or hereafter promulgated under N.J.A.C. 7:22-3 *et seq.*, 7:22-4 *et seq.*, 7:22-5 *et seq.*, 7:22-6 *et seq.*, 7:22-7 *et seq.*, 7:22-8 *et seq.*, 7:22-9 *et seq.* and 7:22-10 *et seq.*, as the same may from time to time be amended and supplemented.

“State” means the State of New Jersey.

“Trust” means the New Jersey Environmental Infrastructure Trust, a public body corporate and politic with corporate succession duly created and validly existing under and by virtue of the Act.

“Trust Bond Loan Repayments” means the repayments of the principal amount of the Loan plus the payment of any premium associated with prepaying the principal amount of the Loan in accordance with Section 3.07 hereof plus the Interest Portion.

“Trust Bonds” means bonds authorized by Section 2.03 of the Bond Resolution, together with any refunding bonds authenticated, if applicable, and delivered pursuant to Section 2.04 of the Bond Resolution, in each case issued in order to finance (i) the portion of the Loan deposited in the Project Loan Account, (ii) the portion of the Loans deposited in the balance of the Project Fund, (iii) any capitalized interest related to such bonds, (iv) a portion of the costs of issuance related to such bonds, and (v) that portion of the Debt Service Reserve Fund (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution), if any, allocable to the Loan or Loans, as the case may be, a portion of which includes the funding of reserve capacity, if applicable, for the Environmental Infrastructure Facilities of the Borrower or Borrowers, as the case may be, or to refinance any or all of the above.

“Trustee” means, initially, U.S. Bank National Association, the Trustee appointed by the Trust and its successors as Trustee under the Bond Resolution, as provided in Article X of the Bond Resolution.

(b) In addition to the capitalized terms defined in subsection (a) of this Section 1.01, certain additional capitalized terms used in this Loan Agreement shall, unless the context clearly requires otherwise, have the meanings ascribed to such additional capitalized terms in Schedule A attached hereto and made a part hereof.

(c) Except as otherwise defined herein or where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, corporations, agencies and districts. Words importing one gender shall include the other gender.

ARTICLE II

REPRESENTATIONS AND COVENANTS OF BORROWER

SECTION 2.01. Representations of Borrower. The Borrower represents for the benefit of the Trust, the Trustee and the holders of the Trust Bonds as follows:

(a) Organization and Authority.

(i) The Borrower is a corporation duly created and validly existing under and pursuant to the Constitution and statutes of the State, including the Business Corporation Law.

(ii) The acting officers of the Borrower who are contemporaneously herewith performing or have previously performed any action contemplated in this Loan Agreement either are or, at the time any such action was performed, were the duly appointed or elected officers of such Borrower empowered by applicable State law and, if applicable, authorized by resolution of the Borrower to perform such actions. To the extent any such action was performed by an officer no longer the duly acting officer of such Borrower, all such actions previously taken by such officer are still in full force and effect.

(iii) The Borrower has full legal right and authority and all necessary licenses and permits required as of the date hereof to own, operate and maintain its Environmental Infrastructure System, to carry on its activities relating thereto, to execute, attest and deliver this Loan Agreement and the Borrower Bond, to authorize the authentication of the Borrower Bond, to sell the Borrower Bond to the Trust, to undertake and complete the Project and to carry out and consummate all transactions contemplated by this Loan Agreement.

(iv) The proceedings of the Borrower's board of directors approving this Loan Agreement and the Borrower Bond, authorizing the execution, attestation and delivery of this Loan Agreement and the Borrower Bond, authorizing the sale of the Borrower Bond to the Trust, authorizing the authentication of the Borrower Bond on behalf of the Borrower and authorizing the Borrower to undertake and complete the Project, including, without limitation, the Borrower Bond Resolution (collectively, the "Proceedings"), have been duly and lawfully adopted in accordance with the Business Corporation Law and other applicable State law at a meeting or meetings that were duly called and held in accordance with the Borrower By-Laws and at which quorums were present and acting throughout.

(v) By official action of the Borrower taken prior to or concurrent with the execution and delivery hereof, including, without limitation, the Proceedings, the Borrower has duly authorized, approved and consented to all necessary action to be taken by the Borrower for: (A) the execution, attestation, delivery and performance of this Loan Agreement and the transactions contemplated hereby; (B) the issuance of the Borrower Bond and the sale thereof to the Trust upon the terms set forth herein; (C) the

approval of the inclusion, if such inclusion is deemed necessary in the sole discretion of the Trust, in the Preliminary Official Statement and the Official Statement of all statements and information relating to the Borrower set forth in "APPENDIX B" thereto (the "Borrower Appendices") and any amendment thereof or supplement thereto; and (D) the execution, delivery and due performance of any and all other certificates, agreements and instruments that may be required to be executed, delivered and performed by the Borrower in order to carry out, give effect to and consummate the transactions contemplated by this Loan Agreement, including, without limitation, the designation of the Borrower Appendices portion of the Preliminary Official Statement, if any, as "deemed final" for the purposes and within the meaning of Rule 15c2-12 ("Rule 15c2-12") of the Securities and Exchange Commission ("SEC") promulgated under the Securities Exchange Act of 1934, as amended or supplemented, including any successor regulation or statute thereto.

(vi) This Loan Agreement and the Borrower Bond have each been duly authorized by the Borrower and duly executed, attested and delivered by Authorized Officers of the Borrower, and the Borrower Bond has been duly sold by the Borrower to the Trust, duly authenticated by the trustee or paying agent, if applicable, under the Borrower Bond Resolution and duly issued by the Borrower in accordance with the terms of the Borrower Bond Resolution; and assuming that the Trust has all the requisite power and authority to authorize, execute, attest and deliver, and has duly authorized, executed, attested and delivered, this Loan Agreement, and assuming further that this Loan Agreement is the legal, valid and binding obligation of the Trust, enforceable against the Trust in accordance with its terms, each of this Loan Agreement and the Borrower Bond constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its respective terms, except as the enforcement thereof may be affected by bankruptcy, insolvency or other laws or the application by a court of legal or equitable principles affecting creditors' rights; and the information contained under "Description of Loan" in Exhibit A-2 attached hereto and made a part hereof is true and accurate in all respects.

(b) Full Disclosure. There is no fact that the Borrower has not disclosed to the Trust in writing on the Borrower's application for the Loan or otherwise that materially adversely affects or (so far as the Borrower can now foresee) that will materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, or the ability of the Borrower to make all Loan Repayments and any other payments required under this Loan Agreement or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(c) Pending Litigation. There are no proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower in any court or before any governmental authority or arbitration board or tribunal that, if adversely determined, would materially adversely affect (i) the undertaking or completion of the Project, (ii) the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, (iii) the ability of the Borrower to make all Loan Repayments or any other payments required under this Loan Agreement, (iv) the authorization, execution, attestation or

delivery of this Loan Agreement or the Borrower Bond, (v) the issuance of the Borrower Bond and the sale thereof to the Trust, (vi) the adoption of the Borrower Bond Resolution, or (vii) the Borrower's ability otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond, which proceedings have not been previously disclosed in writing to the Trust either in the Borrower's application for the Loan or otherwise.

(d) Compliance with Existing Laws and Agreements. (i) The authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond by the Borrower, (ii) the authentication of the Borrower Bond by the trustee or paying agent under the Borrower Bond Resolution, as the case may be, and the sale of the Borrower Bond to the Trust, (iii) the adoption of the Borrower Bond Resolution, (iv) the observation and performance by the Borrower of its duties, covenants, obligations and agreements hereunder and thereunder, (v) the consummation of the transactions provided for in this Loan Agreement, the Borrower Bond Resolution and the Borrower Bond, and (vi) the undertaking and completion of the Project will not (A) other than the lien, charge or encumbrance created hereby, by the Borrower Bond, by the Borrower Bond Resolution and by any other outstanding debt obligations of the Borrower that are at parity with the Borrower Bond as to lien on, and source and security for payment thereon from, the revenues of the Borrower's Environmental Infrastructure System, result in the creation or imposition of any lien, charge or encumbrance upon any properties or assets of the Borrower pursuant to, (B) result in any breach of any of the terms, conditions or provisions of, or (C) constitute a default under, any existing resolution, outstanding debt or lease obligation, trust agreement, indenture, mortgage, deed of trust, loan agreement or other instrument to which the Borrower is a party or by which the Borrower, its Environmental Infrastructure System or any of its properties or assets may be bound, nor will such action result in any violation of the provisions of the charter or other document pursuant to which the Borrower was established or any laws, ordinances, injunctions, judgments, decrees, rules, regulations or existing orders of any court or governmental or administrative agency, authority or person to which the Borrower, its Environmental Infrastructure System or its properties or operations is subject.

(e) No Defaults. No event has occurred and no condition exists that, upon the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the Trust, the adoption of the Borrower Bond Resolution or the receipt of the amount of the Loan, would constitute an Event of Default hereunder. The Borrower is not in violation of, and has not received notice of any claimed violation of, any term of any agreement or other instrument to which it is a party or by which it, its Environmental Infrastructure System or its properties may be bound, which violation would materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System or the ability of the Borrower to make all Loan Repayments, to pay all other amounts due hereunder or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(f) Governmental Consent. The Borrower has obtained all permits and approvals required to date by any governmental body or officer for the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, for the issuance of the Borrower Bond and the sale thereof to the Trust, for the adoption of the Borrower Bond Resolution, for the

making, observance and performance by the Borrower of its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond and for the undertaking or completion of the Project and the financing or refinancing thereof, including, but not limited to, if required, the approval by the New Jersey Board of Public Utilities (the "BPU") of the issuance by the Borrower of the Borrower Bond to the Trust, as required by Section 9a of the Act, and any other approvals required therefor by the BPU; and the Borrower has complied with all applicable provisions of law requiring any notification, declaration, filing or registration with any governmental body or officer in connection with the making, observance and performance by the Borrower of its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond or with the undertaking or completion of the Project and the financing or refinancing thereof. No consent, approval or authorization of, or filing, registration or qualification with, any governmental body or officer that has not been obtained is required on the part of the Borrower as a condition to the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the Trust, the undertaking or completion of the Project or the consummation of any transaction herein contemplated.

(g) Compliance with Law. The Borrower:

(i) is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject, the failure to comply with which would materially adversely affect (A) the ability of the Borrower to conduct its activities or to undertake or complete the Project, (B) the ability of the Borrower to make the Loan Repayments and to pay all other amounts due hereunder, or (C) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System; and

(ii) has obtained all licenses, permits, franchises or other governmental authorizations presently necessary for the ownership of its properties or for the conduct of its activities that, if not obtained, would materially adversely affect (A) the ability of the Borrower to conduct its activities or to undertake or complete the Project, (B) the ability of the Borrower to make the Loan Repayments and to pay all other amounts due hereunder, or (C) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System.

(h) Use of Proceeds. The Borrower will apply the proceeds of the Loan from the Trust as described in Exhibit B attached hereto and made a part hereof (i) to finance or refinance a portion of the Costs of the Borrower's Project; and (ii) where applicable, to reimburse the Borrower for a portion of the Costs of the Borrower's Project, which portion was paid or incurred in anticipation of reimbursement by the Trust and is eligible for such reimbursement under and pursuant to the Regulations, the Code and any other applicable law. All of such costs constitute Costs for which the Trust is authorized to make Loans to the Borrower pursuant to the Act and the Regulations.

(i) Official Statement. The descriptions and information set forth in the Borrower Appendices, if any, contained in the Official Statement relating to the Borrower, its operations and the transactions contemplated hereby, as of the date of the Official Statement, were and, as of the date of delivery hereof, are true and correct in all material respects, and did not and do not

contain any untrue statement of a material fact or omit to state a material fact that is necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

(j) Preliminary Official Statement. As of the date of the Preliminary Official Statement, the descriptions and information set forth in the Borrower Appendices, if any, contained in the Preliminary Official Statement relating to the Borrower, its operations and the transactions contemplated hereby (i) were “deemed final” by the Borrower for the purposes and within the meaning of Rule 15c2-12 and (ii) were true and correct in all material respects, and did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

SECTION 2.02. Particular Covenants of Borrower.

(a) Promise to Pay. The Borrower unconditionally and irrevocably promises in accordance with the terms of and to the extent provided in the Borrower Bond Resolution, to make punctual payment of the principal and redemption premium, if any, of the Loan and the Borrower Bond, the Interest on the Loan, the Interest on the Borrower Bond and all other amounts due under this Loan Agreement and the Borrower Bond according to their respective terms.

(b) Performance Under Loan Agreement; Rates. The Borrower covenants and agrees (i) to comply with all applicable state and federal laws, rules and regulations in the performance of this Loan Agreement; (ii) to maintain its Environmental Infrastructure System in good repair and operating condition; (iii) to cooperate with the Trust in the observance and performance of the respective duties, covenants, obligations and agreements of the Borrower and the Trust under this Loan Agreement; and (iv) to establish, levy and collect rents, rates and other charges for the products and services provided by its Environmental Infrastructure System, which rents, rates and other charges shall be at least sufficient to comply with all covenants pertaining thereto contained in, and all other provisions of, any bond resolution, trust indenture or other security agreement, if any, relating to any bonds, notes or other evidences of indebtedness issued or to be issued by the Borrower, including without limitation rents, rates and other charges, together with other available moneys, sufficient to pay the principal of and Interest on the Borrower Bond, plus all other amounts due hereunder.

(c) Borrower Bond; No Prior Liens. Except for (i) the Borrower Bond, (ii) any bonds or notes at parity with the Borrower Bond and currently outstanding or issued on the date hereof, (iii) any future bonds or notes of the Borrower issued under the Borrower Bond Resolution at parity with the Borrower Bond, and (iv) any Permitted Encumbrances (as defined in the Borrower Bond Resolution), the assets of the Borrower that are subject to the Borrower Bond Resolution are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the Borrower Bond, and all corporate or other action on the part of the Borrower to that end has been and will be duly and validly taken.

(d) Completion of Project and Provision of Moneys Therefor. The Borrower covenants and agrees (i) to exercise its best efforts in accordance with prudent environmental

infrastructure utility practice to complete the Project and to accomplish such completion on or before the estimated Project completion date set forth in Exhibit G hereto and made a part hereof; (ii) to comply with the terms and provisions contained in Exhibit G hereto; and (iii) to provide from its own fiscal resources all moneys, in excess of the total amount of loan proceeds it receives under the Loan and Fund Loan, required to complete the Project.

(e) See Section 2.02(e) as set forth in Schedule A attached hereto, made a part hereof and incorporated in this Section 2.02(e) by reference as if set forth in full herein.

(f) Exclusion of Interest from Federal Gross Income and Compliance with Code.

(i) The Borrower covenants and agrees that it shall not take any action or omit to take any action that would result in the loss of the exclusion of the interest on any Trust Bonds now or hereafter issued from gross income for purposes of federal income taxation as that status is governed by Section 103(a) of the Code.

(ii) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds (or amounts replaced with such proceeds) or any other funds or take any action or omit to take any action that would cause the Trust Bonds (assuming solely for this purpose that the proceeds of the Trust Bonds loaned to the Borrower represent all of the proceeds of the Trust Bonds) to be “arbitrage bonds” within the meaning of Section 148(a) of the Code.

(iii) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds to pay the principal of or the interest or redemption premium on or any other amount in connection with the retirement or redemption of any issue of state or local governmental obligations (“refinancing of indebtedness”), unless the Borrower shall (A) establish to the satisfaction of the Trust, prior to the issuance of the Trust Bonds, that such refinancing of indebtedness will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Trust Bonds, and (B) provide to the Trust an opinion of Bond Counsel to that effect in form and substance satisfactory to the Trust.

(iv) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds to reimburse the Borrower for an expenditure with respect to a Costs of the Borrower’s Project paid by the Borrower prior to the issuance of the Trust Bonds, unless (A) the allocation by the Borrower of the proceeds of the Trust Bonds to reimburse such expenditure complies with the requirements of Treasury Regulations Sec.1.150-2 necessary to enable the reimbursement allocation to be treated as an expenditure of the proceeds of the Trust Bonds for purposes of applying Sections 103 and 141-150, inclusive, of the Code, or (B) such proceeds of the Trust Bonds will be used for refinancing of indebtedness that was used to pay Costs of the Borrower’s Project or to reimburse the Borrower for expenditures with respect to Costs of the Borrower’s Project paid by the Borrower prior to the issuance of such indebtedness in accordance with a reimbursement allocation for such expenditures that complies with the requirements of Treasury Regulations Sec.1.150-2.

(v) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds to pay any costs which are not Costs of the Borrower's Project that constitute a "capital expenditure" within the meaning of Treasury Regulations Sec.1.150-1.

(vi) The Borrower shall not use the proceeds of the Trust Bonds (assuming solely for this purpose that the proceeds of the Trust Bonds loaned to the Borrower represent all of the proceeds of the Trust Bonds) in any manner that would cause the Trust Bonds to be considered "federally guaranteed" within the meaning of Section 149(b) of the Code or "hedge bonds" within the meaning of Section 149(g) of the Code.

(vii) The Borrower shall not issue any debt obligations that (A) are sold at substantially the same time as the Trust Bonds and finance or refinance the Loan made to the Borrower, (B) are sold pursuant to the same plan of financing as the Trust Bonds and finance or refinance the Loan made to the Borrower, and (C) are reasonably expected to be paid out of substantially the same source of funds as the Trust Bonds and finance or refinance the Loan made to the Borrower.

(viii) Neither the Borrower nor any "related party" (within the meaning of Treasury Regulations Sec.1.150-1) shall purchase Trust Bonds in an amount related to the amount of the Loan.

(ix) The Borrower will not issue or permit to be issued obligations that will constitute an "advance refunding" of the Borrower Bond within the meaning of Section 149(d)(5) of the Code without the express written consent of the Trust, which consent may only be delivered by the Trust after the Trust has received notice from the Borrower of such contemplated action no later than sixty (60) days prior to any such contemplated action, and which consent is in the sole discretion of the Trust.

(x) See Section 2.02(f)(xi) as set forth in Schedule A attached hereto, made a part hereof and incorporated in this Section 2.02(f)(xi) by reference as if set forth in full herein.

(xi) No "gross proceeds" of the Trust Bonds held by the Borrower (other than amounts in a "bona fide debt service fund") will be held in a "commingled fund" (as such terms are defined in Treasury Regulations Sec.1.148-1(b)).

(xii) Based upon all of the objective facts and circumstances in existence on the date of issuance of the Trust Bonds used to finance the Project, (A) within six months of the date of issuance of the Trust Bonds used to finance the Project, the Borrower will incur a substantial binding obligation to a third party to expend on the Project at least five percent (5%) of the "net sale proceeds" (within the meaning of Treasury Regulations Sec.1.148-1) of the Loan used to finance the Project (treating an obligation as not being binding if it is subject to contingencies within the control of the Borrower, the Trust or a "related party" (within the meaning of Treasury Regulations Sec.1.150-1)), (B) completion of the Project and the allocation to expenditures of the "net sale proceeds" of

the Loan used to finance the Project will proceed with due diligence, and (C) all of the proceeds of the Loan used to finance the Project (other than amounts deposited into the Debt Service Reserve Fund (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution) allocable to that portion of the Loan used to finance reserve capacity, if any) and investment earnings thereon will be spent prior to the period ending three (3) years subsequent to the date of issuance of the Trust Bonds used to finance the Project. Accordingly, the proceeds of the Loan deposited in the Project Loan Account used to finance the Project will be eligible for the 3-year arbitrage temporary period since the expenditure test, time test and due diligence test, as set forth in Treasury Regulations Sec.1.148-2(e)(2), will be satisfied.

(xiii) The weighted average maturity of the Loan does not exceed 120% of the average reasonably expected economic life of the Project financed or refinanced with the Loan, determined in the same manner as under Section 147(b) of the Code. Accordingly, the term of the Loan will not be longer than is reasonably necessary for the governmental purposes of the Loan within the meaning of Treasury Regulations Sec.1.148-1(c) (4).

(xiv) The Borrower shall, within 30 days of date the Borrower concludes that no additional proceeds of the Loan will be required to pay costs of the Project, provide to the Trust a certificate of the Borrower evidencing such conclusion.

For purposes of this subsection and subsection (h) of this Section 2.02, quoted terms shall have the meanings given thereto by Section 148 of the Code, including, particularly, Treasury Regulations Sec.1.148-1 through 1.148-11, inclusive, as supplemented or amended, to the extent applicable to the Trust Bonds, and any successor Treasury Regulations applicable to the Trust Bonds.

(g) Operation and Maintenance of Environmental Infrastructure System. The Borrower covenants and agrees that it shall, in accordance with prudent environmental infrastructure utility practice, (i) at all times operate the properties of its Environmental Infrastructure System and any business in connection therewith in an efficient manner, (ii) maintain its Environmental Infrastructure System in good repair, working order and operating condition, and (iii) from time to time make all necessary and proper repairs, renewals, replacements, additions, betterments and improvements with respect to its Environmental Infrastructure System so that at all times the business carried on in connection therewith shall be properly and advantageously conducted.

(h) Records and Accounts.

(i) The Borrower shall keep accurate records and accounts for its Environmental Infrastructure System (the "System Records") separate and distinct from its other records and accounts (the "General Records"). Such System Records shall be audited annually by an independent certified public accountant, which may be part of the annual audit of the General Records of the Borrower. Such System Records and General Records shall be made available for inspection by the Trust at any reasonable time upon prior written notice, and a copy of such annual audit(s) therefor, including all written comments and recommendations of such accountant, shall be furnished to the Trust

within 150 days of the close of the fiscal year being so audited or, with the consent of the Trust, such additional period as may be provided by law.

(ii) Within 30 days following receipt of any Loan proceeds, including without limitation the “Allowance for Administrative Costs” or the “Allowance for Planning and Design” set forth in Exhibit B hereto, the Borrower shall allocate such proceeds to an expenditures in a manner that satisfies the requirements of Treasury Regulation Sec.1.148-6(d) and transmit a copy of each such allocation to the Trust. No portion of the Allowance for Administrative Costs will be allocated to a cost other than a cost described in N.J.A.C. 7:22-5.11(a) 3, 4 or 6. No portion of the Allowance for Planning and Design will be allocated to a cost other than a cost described N.J.A.C. 7:22-5.12, or other costs of the Borrower’s Environmental Infrastructure System which are “capital expenditures,” within the meaning of Treasury Regulations Sec.1.150-1. The Borrower shall retain records of such allocations for at least until the date that is three years after the scheduled maturity date of the Trust Bonds. The Borrower shall make such records available to the Trust within 15 days of any request by the Trust.

(iii) Unless otherwise advised in writing by the Trust, in furtherance of the covenant of the Borrower contained in subsection (f) of this Section 2.02 not to cause the Trust Bonds to be arbitrage bonds, the Borrower shall keep, or cause to be kept, accurate records of each investment it makes in any “nonpurpose investment” acquired with, or otherwise allocated to, “gross proceeds” of the Trust Bonds not held by the Trustee and each “expenditure” it makes allocated to “gross proceeds” of the Trust Bonds. Such records shall include the purchase price, including any constructive “payments” (or in the case of a “payment” constituting a deemed acquisition of a “nonpurpose investment” (e.g., a “nonpurpose investment” first allocated to “gross proceeds” of the Trust Bonds after it is actually acquired because it is deposited in a sinking fund for the Trust Bonds)), the “fair market value” of the “nonpurpose investment” on the date first allocated to the “gross proceeds” of the Trust Bonds, nominal interest rate, dated date, maturity date, type of property, frequency of periodic payments, period of compounding, yield to maturity, amount actually or constructively received on disposition (or in the case of a “receipt” constituting a deemed disposition of a “nonpurpose investment” (e.g., a “nonpurpose investment” that ceases to be allocated to the “gross proceeds” of the Trust Bonds because it is removed from a sinking fund for the Trust Bonds)), the “fair market value” of the “nonpurpose investment” on the date it ceases to be allocated to the “gross proceeds” of the Trust Bonds, the purchase date and disposition date of the “nonpurpose investment” and evidence of the “fair market value” of such property on the purchase date and disposition date (or deemed purchase or disposition date) for each such “nonpurpose investment”. The purchase date, disposition date and the date of determination of “fair market value” shall be the date on which a contract to purchase or sell the “nonpurpose investment” becomes binding, i.e., the trade date rather than the settlement date. For purposes of the calculation of purchase price and disposition price, brokerage or selling commissions, administrative expenses or similar expenses shall not increase the purchase price of an item and shall not reduce the amount actually or constructively received upon disposition of an item, except to the extent such costs constitute “qualified administrative costs”.

(iv) Within thirty (30) days of the last day of the fifth and each succeeding fifth “bond year” (which, unless otherwise advised by the Trust, shall be the five-year period ending on the date five years subsequent to the date immediately preceding the date of issuance of the Trust Bonds and each succeeding fifth “bond year”) and within thirty (30) days of the date the last bond that is part of the Trust Bonds is discharged (or on any other periodic basis requested in writing by the Trust), the Borrower shall (A) calculate, or cause to be calculated, the “rebate amount” as of the “computation date” or “final computation date” attributable to any “nonpurpose investment” made by the Borrower and (B) remit the following to the Trust: (1) an amount of money that when added to the “future value” as of the “computation date” of any previous payments made to the Trust on account of rebate equals the “rebate amount”, (2) the calculations supporting the “rebate amount” attributable to any “nonpurpose investment” made by the Borrower allocated to “gross proceeds” of the Trust Bonds, and (3) any other information requested by the Trust relating to compliance with Section 148 of the Code (e.g., information related to any “nonpurpose investment” of the Borrower for purposes of application of the “universal cap”).

(v) The Borrower covenants and agrees that it will account for “gross proceeds” of the Trust Bonds, investments allocable to the Trust Bonds and expenditures of “gross proceeds” of the Trust Bonds in accordance with Treasury Regulations Sec.1.148-6. All allocations of “gross proceeds” of the Trust Bonds to expenditures will be recorded on the books of the Borrower kept in connection with the Trust Bonds no later than 18 months after the later of the date the particular Costs of the Borrower’s Project is paid or the date the portion of the project financed by the Trust Bonds is placed in service. All allocations of proceeds of the Trust Bonds to expenditures will be made no later than the date that is 60 days after the fifth anniversary of the date the Trust Bonds are issued or the date 60 days after the retirement of the Trust Bonds, if earlier. Such records and accounts will include the particular Costs paid, the date of the payment and the party to whom the payment was made.

(vi) From time to time as directed by the Trust, the Borrower shall provide to the Trust a written report demonstrating compliance by the Borrower with the provisions of Section 2.02(f) of this Loan Agreement, each such written report to be submitted by the Borrower to the Trust in the form of a full and complete written response to a questionnaire provided by the Trust to the Borrower. Each such questionnaire shall be provided by the Trust to the Borrower not less than fourteen (14) days prior to the date established by the Trust for receipt from the Borrower of the full and complete written response to the questionnaire.

(i) Inspections; Information. The Borrower shall permit the Trust and the Trustee and any party designated by any of such parties, at any and all reasonable times during construction of the Project and thereafter upon prior written notice, to examine, visit and inspect the property, if any, constituting the Project and to inspect and make copies of any accounts, books and records, including (without limitation) its records regarding receipts, disbursements, contracts, investments and any other matters relating thereto and to its financial standing, and shall supply such reports and information as the Trust and the Trustee may reasonably require in connection therewith.

(j) Insurance. The Borrower shall maintain or cause to be maintained, in force, insurance policies with responsible insurers or self-insurance programs providing against risk of direct physical loss, damage or destruction of its Environmental Infrastructure System at least to the extent that similar insurance is usually carried by utilities constructing, operating and maintaining Environmental Infrastructure Facilities of the nature of the Borrower's Environmental Infrastructure System, including liability coverage, all to the extent available at reasonable cost but in no case less than will satisfy all applicable regulatory requirements.

(k) Costs of Project. The Borrower certifies that the building cost of the Project, as listed in Exhibit B hereto and made a part hereof, is a reasonable and accurate estimation thereof, and it will supply to the Trust a certificate from a licensed professional engineer authorized to practice in the State stating that such building cost is a reasonable and accurate estimation and that the useful life of the Project exceeds the maturity date of the Borrower Bond.

(l) Delivery of Documents. Concurrently with the delivery of this Loan Agreement (as previously authorized, executed and attested) at the Loan Closing, the Borrower will cause to be delivered to the Trust and the Trustee each of the following items:

(i) an opinion of the Borrower's bond counsel substantially in the form of Exhibit E hereto; provided, however, that the Trust may permit portions of such opinion to be rendered by general counsel to the Borrower and may permit variances in such opinion from the form set forth in Exhibit E if, in the opinion of the Trust, such variances are not to the material detriment of the interests of the holders of the Trust Bonds;

(ii) counterparts of this Loan Agreement as previously executed and attested by the parties hereto;

(iii) copies of those resolutions finally adopted by the board of directors of the Borrower and requested by the Trust, including, without limitation, (A) the resolution of the Borrower authorizing the execution, attestation and delivery of this Loan Agreement, (B) the Borrower Bond Resolution, as amended and supplemented as of the date of the Loan Closing, authorizing the execution, attestation, authentication, sale and delivery of the Borrower Bond to the Trust, (C) the resolution of the Borrower, if any, confirming the details of the sale of the Borrower Bond to the Trust, (D) the resolution of the Borrower, if any, declaring its official intent to reimburse expenditures for the Costs of the Project from the proceeds of the Trust Bonds, each of said resolutions of the Borrower being certified by an Authorized Officer of the Borrower as of the date of the Loan Closing, (E) the resolution of the BPU approving the issuance by the Borrower of the Borrower Bond to the Trust and setting forth any other approvals required therefor by the BPU, if applicable, and (F) any other Proceedings;

(iv) if the Loan is being made to reimburse the Borrower for all or a portion of the Costs of the Borrower's Project or to refinance indebtedness or reimburse the Borrower for the repayment of indebtedness previously incurred by the Borrower to finance all or a portion of the Costs of the Borrower's Project, an opinion of Bond Counsel, in form and substance satisfactory to the Trust, to the effect that such

reimbursement or refinancing will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Trust Bonds; and

(v) the certificates of insurance coverage as required pursuant to the terms of Section 3.06(d) hereof and such other certificates, documents, opinions and information as the Trust may require in Exhibit F hereto, if any.

(m) Execution and Delivery of Borrower Bond. Concurrently with the delivery of this Loan Agreement at the Loan Closing, the Borrower shall also deliver to the Trust the Borrower Bond, as previously executed, attested and, if applicable, authenticated, upon the receipt of a written certification of the Trust that a portion of the net proceeds of the Trust Bonds shall be deposited in the Project Loan Account simultaneously with the delivery of the Borrower Bond.

(n) Notice of Material Adverse Change. The Borrower shall promptly notify the Trust of any material adverse change in the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, or in the ability of the Borrower to make all Loan Repayments and otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(o) Continuing Representations. The representations of the Borrower contained herein shall be true at the time of the execution of this Loan Agreement and at all times during the term of this Loan Agreement.

(p) Continuing Disclosure Covenant. To the extent that the Trust, in its sole discretion, determines, at any time prior to the termination of the Loan Term, that the Borrower is a material "obligated person", as the term "obligated person" is defined in Rule 15c2-12, with materiality being determined by the Trust pursuant to criteria established, from time to time, by the Trust in its sole discretion and set forth in a bond resolution or official statement of the Trust, the Borrower hereby covenants that it will authorize and provide to the Trust, for inclusion in any preliminary official statement or official statement of the Trust, all statements and information relating to the Borrower deemed material by the Trust for the purpose of satisfying Rule 15c2-12 as well as Rule 10b-5 promulgated pursuant to the Securities Exchange Act of 1934, as amended or supplemented, including any successor regulation or statute thereto ("Rule 10b-5"), including certificates and written representations of the Borrower evidencing its compliance with Rule 15c2-12 and Rule 10b-5; and the Borrower hereby further covenants that the Borrower shall execute and deliver the Continuing Disclosure Agreement, in substantially the form attached hereto as Exhibit H, with such revisions thereto prior to execution and delivery thereof as the Trust shall determine to be necessary, desirable or convenient, in its sole discretion, for the purpose of satisfying Rule 15c2-12 and the purposes and intent thereof, as Rule 15c2-12, its purposes and intent may hereafter be interpreted from time to time by the SEC or any court of competent jurisdiction; and pursuant to the terms and provisions of the Continuing Disclosure Agreement, the Borrower shall thereafter provide on-going disclosure with respect to all statements and information relating to the Borrower in satisfaction of the requirements set forth in Rule 15c2-12 and Rule 10b-5, including, without limitation, the provision of certificates and written representations of the Borrower evidencing its compliance with Rule 15c2-12 and Rule 10b-5.

(q) Additional Covenants and Requirements. (i) No later than the Loan Closing and, if necessary, in connection with the Trust's issuance of the Trust Bonds or the making of the Loan, additional covenants and requirements have been included in Exhibit F hereto and made a part hereof. Such covenants and requirements may include, but need not be limited to the maintenance of specified levels of Environmental Infrastructure System rates, the issuance of additional debt of the Borrower, the use by or on behalf of the Borrower of certain proceeds of the Trust Bonds as such use relates to the exclusion from gross income for federal income tax purposes of the interest on any Trust Bonds, the transfer of revenues and receipts from the Borrower's Environmental Infrastructure System, compliance with Rule 15c2-12, Rule 10b-5 and any other applicable federal or state securities laws, and matters in connection with the appointment of the Trustee under the Bond Resolution and any successors thereto. The Borrower hereby agrees to observe and comply with each such additional covenant and requirement, if any, included in Exhibit F hereto as if the same were set forth herein in its entirety. (ii) Additional defined terms, covenants, representations and requirements have been included in Schedule A attached hereto and made a part hereof. Such additional defined terms, covenants, representations and requirements are incorporated in this Loan Agreement by reference thereto as if set forth in full herein and the Borrower hereby agrees to observe and comply with each such additional term, covenant, representation and requirement included in Schedule A as if the same were set forth in its entirety where reference thereto is made in this Loan Agreement.

ARTICLE III

LOAN TO BORROWER; AMOUNTS PAYABLE; GENERAL AGREEMENTS

SECTION 3.01. Loan; Loan Term. The Trust hereby agrees to make the Loan as described in Exhibit A-2 hereof and to disburse proceeds of the Loan to the Borrower in accordance with Section 3.02 and Exhibit C hereof, and the Borrower hereby agrees to borrow and accept the Loan from the Trust upon the terms set forth in Exhibit A-2 attached hereto and made a part hereof; provided, however, that the Trust shall be under no obligation to make the Loan if (a) at the Loan Closing, the Borrower does not deliver to the Trust a Borrower Bond and such other documents required under Section 2.02(1) hereof, or (b) an Event of Default has occurred and is continuing under the Bond Resolution or this Loan Agreement. Although the Trust intends to disburse proceeds of the Loan to the Borrower at the times and up to the amounts set forth in Exhibit C to pay a portion of the Costs of the Project, due to unforeseen circumstances there may not be a sufficient amount on deposit in the Project Fund on any date to make the disbursement in such amount. Nevertheless, the Borrower agrees that the amount actually deposited in the Project Loan Account at the Loan Closing plus the Borrower's allocable share of (i) certain costs of issuance and underwriter's discount for all Trust Bonds issued to finance the Loan; (ii) capitalized interest during the Project construction period, if applicable; and (iii) that portion of the Debt Service Reserve Fund (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution) attributable to the cost of funding reserve capacity for the Project, if applicable, shall constitute the initial principal amount of the Loan (as the same may be adjusted downward in accordance with the definition thereof), and neither the Trust nor the Trustee shall have any obligation thereafter to loan any additional amounts to the Borrower.

The Borrower shall use the proceeds of the Loan strictly in accordance with Section 2.01(h) hereof.

The payment obligations created under this Loan Agreement and the obligations to pay the principal of the Borrower Bond, Interest on the Borrower Bond and other amounts due under the Borrower Bond are direct, general irrevocable and unconditional obligations of the Borrower payable from any source legally available to the Borrower in accordance with the terms of and to the extent provided in the Borrower Bond Resolution.

SECTION 3.02. Disbursement of Loan Proceeds.

(a) The Trustee, as the agent of the Trust, shall disburse the amounts on deposit in the Project Loan Account to the Borrower upon receipt of a requisition executed by an Authorized Officer of the Borrower, and approved by the Trust, in a form meeting the requirements of Section 5.02(3) of the Bond Resolution.

(b) The Trust and Trustee shall not be required to disburse any Loan proceeds to the Borrower under this Loan Agreement, unless:

(i) the proceeds of the Trust Bonds shall be available for disbursement, as determined solely by the Trust;

(ii) in accordance with the Bond Act, and the Regulations, the Borrower shall have timely applied for, shall have been awarded and, prior to or simultaneously with the Loan Closing, shall have closed a Fund Loan for a portion of the Allowable Costs (as defined in such Regulations) of the Project in an amount not in excess of the amount of Allowable Costs of the Project financed by the Loan from the Trust;

(iii) the Borrower shall have on hand moneys to pay for the greater of (A) that portion of the total Costs of the Project that is not eligible to be funded from the Fund Loan or the Loan, or (B) that portion of the total Costs of the Project that exceeds the actual amounts of the loan commitments made by the State and the Trust, respectively, for the Fund Loan and the Loan; and

(iv) no Event of Default nor any event that, with the passage of time or service of notice or both, would constitute an Event of Default shall have occurred and be continuing hereunder.

SECTION 3.03. Amounts Payable.

(a) The Borrower shall repay the Loan in installments payable to the Trustee as follows:

(i) the principal of the Loan shall be repaid annually on the Principal Payment Dates, in accordance with the schedule set forth in Exhibit A-2 attached hereto and made a part hereof, as the same may be amended or modified by any credits applicable to the Borrower as set forth in the Bond Resolution;

(ii) the Interest Portion described in clause (i) of the definition thereof shall be paid semiannually on the Interest Payment Dates, in accordance with the schedule set forth in Exhibit A-2 attached hereto and made a part hereof, as the same may be amended or modified by any credits applicable to the Borrower as set forth in the Bond Resolution; and

(iii) the Interest Portion described in clause (ii) of the definition thereof shall be paid upon the date of optional redemption or acceleration, as the case may be, of the Trust Bonds allocable to any prepaid or accelerated Trust Bond Loan Repayment.

The obligations of the Borrower under the Borrower Bond shall be deemed to be amounts payable under this Section 3.03. Each Loan Repayment, whether satisfied through a direct payment by the Borrower to the Trustee or (with respect to the Interest Portion) through the use of Trust Bond proceeds and income thereon on deposit in the Interest Account (as defined in the Bond Resolution) to pay interest on the Trust Bonds, shall be deemed to be a credit against the corresponding obligation of the Borrower under this Section 3.03 and shall fulfill the Borrower's obligation to pay such amount hereunder and under the Borrower Bond. Each payment made to the Trustee pursuant to this Section 3.03 shall be applied *first* to the Interest Portion then due and payable, *second* to the principal of the Loan then due and payable, *third* to the payment of the Administrative Fee, and *finally* to the payment of any late charges hereunder.

(b) The Interest on the Loan described in clause (iii) of the definition thereof shall (i) consist of a late charge for any Trust Bond Loan Repayment that is received by the Trustee later than the tenth (10th) day following its due date and (ii) be payable immediately thereafter in an amount equal to the greater of twelve percent (12%) per annum or the Prime Rate plus one half of one percent per annum on such late payment from its due date to the date it is actually paid; provided, however, that the rate of Interest on the Loan, including, without limitation, any late payment charges incurred hereunder, shall not exceed the maximum interest rate permitted by law.

(c) The Borrower shall receive, as a credit against its semiannual payment obligations of the Interest Portion, the amounts certified by the Trust pursuant to Section 5.10 of the Bond Resolution. Such amounts shall represent the Borrower's allocable share of the interest earnings on certain funds and accounts established under the Bond Resolution, calculated in accordance with Section 5.10 of the Bond Resolution.

(d) In accordance with the provisions of the Bond Resolution, the Borrower shall receive, as a credit against its Trust Bond Loan Repayments, the amounts set forth in the certificate of the Trust filed with the Trustee pursuant to Section 5.02(4) of the Bond Resolution.

(e) The Interest on the Loan described in clause (ii) of the definition thereof shall be paid by the Borrower in the amount of one-half of the Administrative Fee, if any, to the Trustee semiannually on each February 1 and August 1, commencing August 1, 2011.

(f) The Borrower hereby agrees to pay to the Trust at the Loan Closing a "Security Review Fee" in the amount necessary to reimburse the Trust for all of its costs and expenses incurred in connection with reviewing the additional security securing the Trust Loan as set forth in Exhibit F hereto, if any, including without limitation the fees and expenses of any professional advisers hired by the Trust in connection therewith.

SECTION 3.03A. Amounts on Deposit in Project Loan Account After Completion of Project Draws.

(a) If, on the date which is thirty (30) days following the final date for which a disbursement of Loan proceeds is scheduled to be made pursuant to Exhibit C hereto, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower must provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower (i) stating that the Borrower has not yet completed the Project, (ii) stating that the Borrower intends to complete the Project, (iii) setting forth the amount of remaining Loan Proceeds required to complete the Project, and (iv) providing a revised draw schedule, in a form similar to Exhibit C hereto and approved by the Department.

(b) If, on the date which is thirty (30) days following the final date for which a disbursement of Loan proceeds is scheduled to be made pursuant to a revised draw schedule certified to the Trust and the Department in accordance with Section 3.03A(a) hereof, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower must provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower (i) stating that the Borrower has not yet completed the Project, (ii) stating that the Borrower intends to

complete the Project, (iii) setting forth the amount of remaining Loan Proceeds required to complete the Project, and (iv) providing a revised draw schedule, in a form similar to Exhibit C hereto and approved by the Department.

(c) If, on the date which the Borrower has completed the Project, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower must within thirty (30) days following such date provide to the Trust and the Department a certificate (i) stating that the Project is complete and (ii) setting forth the remaining costs, if any, of the Project for which a disbursement of Loan will be required.

(d) If the Borrower fails to provide the certificate described in paragraphs (a), (b) or (c) of this Section 3.03A, when due, or if such certificate states that the Borrower does not require all or any portion of the amount on deposit in the Project Loan Account to complete the Project, such amounts on deposit in the Project Loan Account which are not certified by an Authorized Officer of the Borrower as being required to complete the Project ("Excess Project Funds") shall be applied as follows:

(i) If Trust Bonds can be redeemed within sixty (60) days of the date the Borrower is required to provide the certificate described in paragraphs (a), (b) or (c) of this Section 3.03A, the Excess Project Funds shall be used by the Trust within such sixty (60) day period to redeem Trust Bonds, including payment of any pre-payment premium. The Trust Bonds shall be redeemed in inverse order of their maturity. The amount of any maturity redeemed shall not exceed the same proportion as the Loan bears to all Loans made from proceeds of the Trust Bonds rounded down to whole denominations or any integral multiple. The aggregate amount of Trust Bonds so redeemed shall not be less than the amount of nonqualified bonds allocable to the Borrower under Treasury Regulations Sec.1.142-12. The Excess Project Funds used to redeem Trust Bonds shall be applied by the Trust as a prepayment of the Borrower's Loan Repayments with respect to the redeemed bonds. Any excess shall be held by Trust invested at a yield which does not exceed the yield on the Trust Bonds.

(ii) If Trust Bonds can not be redeemed within sixty (60) days of the date the Borrower is required to provide the certificate described in paragraphs (a), (b) or (c) of this Section 3.03A, the Trust shall, within such sixty (60) day period, (A) deposit all of the Excess Project Funds in a defeasance escrow established to defease Trust Bonds in inverse order of their maturity, in the same proportion as the Loan bears to all Loans made from proceeds of the Trust Bonds, (B) provide the notice to the Internal Revenue Service required pursuant to Treasury Regulations Sec.1.142-2(c) (2), or any successor income tax regulations, and (C) apply the Excess Project Funds as a prepayment of the Borrower's Loan Repayments for the defeased Trust Bonds. The aggregate amount of Trust Bonds so defeased shall not be less than the amount of nonqualified bonds allocable to the Borrower under Treasury Regulations Sec.1.142-12

SECTION 3.04. Unconditional Obligations. The obligation of the Borrower to make the Loan Repayments and all other payments required hereunder and the obligation to perform and observe the other duties, covenants, obligations and agreements on its part contained herein shall be absolute and unconditional, and shall not be abated, rebated, set-off,

reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever while any Trust Bonds remain outstanding or any Loan Repayments remain unpaid, for any reason, regardless of any contingency, act of God, event or cause whatsoever, including (without limitation) any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, the taking by eminent domain or destruction of or damage to the Project or Environmental Infrastructure System, commercial frustration of the purpose, any change in the laws of the United States of America or of the State or any political subdivision of either or in the rules or regulations of any governmental authority, any failure of the Trust or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Project, this Loan Agreement or the Bond Resolution, or any rights of set-off, recoupment, abatement or counterclaim that the Borrower might otherwise have against the Trust, the Trustee or any other party or parties; provided, however, that payments hereunder shall not constitute a waiver of any such rights. The Borrower shall not be obligated to make any payments required to be made by any other Borrowers under separate Loan Agreements or the Bond Resolution.

The Borrower acknowledges that payment of the Trust Bonds by the Trust, including payment from moneys drawn by the Trustee from the Debt Service Reserve Fund (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution), does not constitute payment of the amounts due under this Loan Agreement and the Borrower Bond. If at any time the amount in the Debt Service Reserve Fund shall be less than the Debt Service Reserve Requirement as the result of any transfer of moneys from the Debt Service Reserve Fund to the Debt Service Fund (as all such terms are defined in the Bond Resolution) as the result of a failure by the Borrower to make any Trust Bond Loan Repayments required hereunder, the Borrower agrees to replenish (i) such moneys so transferred and (ii) any deficiency arising from losses incurred in making such transfer as the result of the liquidation by the Trust of Investment Securities (as defined in the Bond Resolution) acquired as an investment of moneys in the Debt Service Reserve Fund, by making payments to the Trust in equal monthly installments for the lesser of six (6) months or the remaining term of the Loan at an interest rate to be determined by the Trust necessary to make up any loss caused by such deficiency.

The Borrower acknowledges that payment of the Trust Bonds from moneys that were originally received by the Trustee from repayments by the Borrowers of loans made to the Borrowers by the State, acting by and through the Department, pursuant to loan agreements dated as of December 1, 2010 by and between the Borrowers and the State, acting by and through the Department, to finance or refinance a portion of the Costs of the Environmental Infrastructure Facilities of the Borrowers, and which moneys were upon such receipt by the Trustee deposited in the Trust Bonds Security Account (as defined in the Bond Resolution) does not constitute payment of the amounts due under this Loan Agreement and the Borrower Bond.

SECTION 3.05. Loan Agreement to Survive Bond Resolution and Trust Bonds. The Borrower acknowledges that its duties, covenants, obligations and agreements hereunder shall survive the discharge of the Bond Resolution applicable to the Trust Bonds and shall survive the payment of the principal and redemption premium, if any, of and the interest on the Trust Bonds until the Borrower can take no action or fail to take any action that could adversely affect the exclusion from gross income of the interest on the Trust Bonds for purposes of federal

income taxation, at which time such duties, covenants, obligations and agreements hereunder shall, except for those set forth in Sections 3.06(a) and (b) hereof, terminate.

SECTION 3.06. Disclaimer of Warranties and Indemnification.

(a) The Borrower acknowledges and agrees that (i) neither the Trust nor the Trustee makes any warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for particular purpose or fitness for any use of the Environmental Infrastructure System or the Project or any portions thereof or any other warranty or representation with respect thereto; (ii) in no event shall the Trust or the Trustee or their respective agents be liable or responsible for any incidental, indirect, special or consequential damages in connection with or arising out of this Loan Agreement or the Project or the existence, furnishing, functioning or use of the Environmental Infrastructure System or the Project or any item or products or services provided for in this Loan Agreement; and (iii) to the fullest extent permitted by law, the Borrower shall indemnify and hold the Trust and the Trustee harmless against, and the Borrower shall pay any and all, liability, loss, cost, damage, claim, judgment or expense of any and all kinds or nature and however arising and imposed by law, which the Trust and the Trustee may sustain, be subject to or be caused to incur by reason of any claim, suit or action based upon personal injury, death or damage to property, whether real, personal or mixed, or upon or arising out of contracts entered into by the Borrower, the Borrower's ownership of the Environmental Infrastructure System or the Project, or the acquisition, construction or installation of the Project.

(b) It is mutually agreed by the Borrower, the Trust and the Trustee that the Trust and its officers, agents, servants or employees shall not be liable for, and shall be indemnified and saved harmless by the Borrower in any event from, any action performed under this Loan Agreement and any claim or suit of whatsoever nature, except in the event of loss or damage resulting from their own negligence or willful misconduct. It is further agreed that the Trustee and its directors, officers, agents, servants or employees shall not be liable for, and shall be indemnified and saved harmless by the Borrower in any event from, any action performed pursuant to this Loan Agreement, except in the event of loss or damage resulting from their own negligence or willful misconduct.

(c) The Borrower and the Trust agree that all claims shall be subject to and governed by the provisions of the New Jersey Contractual Liability Act, N.J.S.A. 59:13-1 *et seq.* (except for N.J.S.A. 59:13-9 thereof), although such Act by its express terms does not apply to claims arising under contract with the Trust.

(d) In connection with its obligation to provide the insurance required under Section 2.02(j) hereof: (i) the Borrower shall include, or cause to be included, the Trust and its directors, employees and officers as additional "named insureds" on (A) any certificate of liability insurance procured by the Borrower (or other similar document evidencing the liability insurance coverage procured by the Borrower) and (B) any certificate of liability insurance procured by any contractor or subcontractor for the Project, and from the later of the date of the Loan Closing or the date of the initiation of construction of the Project until the date the Borrower receives the written certificate of Project completion from the Trust, the Borrower shall maintain said liability insurance covering the Trust and said directors, employees and officers in good standing; and (ii)

the Borrower shall include the Trust as an additional “named insured” on any certificate of insurance providing against risk of direct physical loss, damage or destruction of the Environmental Infrastructure System, and during the Loan Term the Borrower shall maintain said insurance covering the Trust in good standing.

The Borrower shall provide the Trust with a copy of each of any such original, supplemental, amendatory or reissued certificates of insurance (or other similar documents evidencing the insurance coverage) required pursuant to this Section 3.06(d).

SECTION 3.07. Option to Prepay Loan Repayments. The Borrower may prepay the Trust Bond Loan Repayments, in whole or in part (but if in part, in the amount of \$100,000 or any integral multiple thereof), upon prior written notice to the Trust and the Trustee not less than ninety (90) days in addition to the number of days’ advance notice to the Trustee required for any optional redemption of the Trust Bonds, and upon payment by the Borrower to the Trustee of amounts that, together with investment earnings thereon, will be sufficient to pay the principal amount of the Trust Bond Loan Repayments to be prepaid plus the Interest Portion described in clause (ii) of the definition thereof on any such date of redemption; provided, however, that, with respect to any prepayment other than those required by Section 3.03A hereof, any such full or partial prepayment may only be made (i) if the Borrower is not then in arrears on its Fund Loan, (ii) if the Borrower is contemporaneously making a full or partial prepayment of the Fund Loan such that, after the prepayment of the Loan and the Fund Loan, the Trust, in its sole discretion, determines that the interests of the owners of the Trust Bonds are not adversely affected by such prepayments, and (iii) upon the prior written approval of the Trust. In addition, if at the time of such prepayment the Trust Bonds may only be redeemed at the option of the Trust upon payment of a premium, the Borrower shall add to its prepayment of Trust Bond Loan Repayments an amount, as determined by the Trust, equal to such premium allocable to the Trust Bonds to be redeemed as a result of the Borrower’s prepayment. Prepayments shall be applied first to the Interest Portion that accrues on the portion of the Loan to be prepaid until such prepayment date as described in clause (ii) of the definition thereof and then to principal payments (including premium, if any) on the Loan in inverse order of their maturity.

SECTION 3.08. Priority of Loan and Fund Loan.

(a) The Borrower hereby acknowledges that, to the extent allowed by law or the Borrower Bond Resolution, any Loan Repayments then due and payable on the Loan shall be satisfied by the Trustee before any loan repayments on the Borrower’s Fund Loan shall be satisfied by the Trustee. The Borrower agrees not to interfere with any such action by the Trustee.

(b) The Borrower hereby acknowledges that in the event the Borrower fails or is unable to pay promptly to the Trust in full any Trust Bond Loan Repayments under this Loan Agreement when due, then any (i) Administrative Fee paid hereunder, (ii) late charges paid hereunder, and (iii) loan repayments paid by the Borrower on its Fund Loan under the related loan agreement therefor, any of which payments shall be received by the Trustee during the time of any such Trust Bond Loan Repayment deficiency, shall be applied by the Trustee *first* to satisfy such Trust Bond Loan Repayment deficiency as a credit against the obligations of the Borrower to make payments of the Interest Portion under the Loan and the Borrower Bond,

second, to the extent available, to make Trust Bond Loan Repayments of principal hereunder and payments of principal under the Borrower Bond, *third*, to the extent available, to pay the Administrative Fee, *fourth*, to the extent available, to pay any late charges hereunder, *fifth*, to the extent available, to satisfy the repayment of the Borrower's Fund Loan under its related loan agreement therefor, and *finally*, to the extent available, to satisfy the repayment of the administrative fee under any such related loan agreement.

(c) The Borrower hereby further acknowledges that any loan repayments paid by the Borrower on its Fund Loan under the related loan agreement therefor shall be applied according to the provisions of the Master Program Trust Agreement.

SECTION 3.09. Approval of the New Jersey State Treasurer. The Borrower and the Trust hereby acknowledge that prior to or simultaneously with the Loan Closing the New Jersey State Treasurer, in satisfaction of the requirements of Section 9a of the Act, issued the "Certificate of the New Jersey State Treasurer Regarding the Approval of the Trust Loan and the Fund Loan" (the "Treasurer's Certificate"). Pursuant to the terms of the Treasurer's Certificate, the New Jersey State Treasurer approved the Loan and the terms and conditions thereof as established by the provisions of this Loan Agreement.

ARTICLE IV

ASSIGNMENT OF LOAN AGREEMENT AND BORROWER BOND

SECTION 4.01. Assignment and Transfer by Trust.

(a) The Borrower hereby expressly acknowledges that, other than the provisions of Section 2.02(d)(ii) hereof, the Trust's right, title and interest in, to and under this Loan Agreement and the Borrower Bond have been assigned to the Trustee as security for the Trust Bonds as provided in the Bond Resolution, and that if any Event of Default shall occur, the Trustee or any Bond Insurer (as such term may be defined in the Bond Resolution), if applicable, pursuant to the Bond Resolution, shall be entitled to act hereunder in the place and stead of the Trust. The Borrower hereby acknowledges the requirements of the Bond Resolution applicable to the Trust Bonds and consents to such assignment and appointment. This Loan Agreement and the Borrower Bond, including, without limitation, the right to receive payments required to be made by the Borrower hereunder and to compel or otherwise enforce observance and performance by the Borrower of its other duties, covenants, obligations and agreements hereunder, may be further transferred, assigned and reassigned in whole or in part to one or more assignees or subassignees by the Trustee at any time subsequent to their execution without the necessity of obtaining the consent of, but after giving prior written notice to, the Borrower.

The Trust shall retain the right to compel or otherwise enforce observance and performance by the Borrower of its duties, covenants, obligations and agreements under Section 2.02(d)(ii) hereof; provided, however, that in no event shall the Trust have the right to accelerate the Borrower Bond in connection with the enforcement of Section 2.02(d)(ii) hereof.

(b) The Borrower hereby approves and consents to any assignment or transfer of this Loan Agreement and the Borrower Bond that the Trust deems to be necessary in connection with any refunding of the Trust Bonds or the issuance of additional bonds under the Bond Resolution or otherwise, all in connection with the pooled loan program of the Trust.

SECTION 4.02. Assignment by Borrower. Neither this Loan Agreement nor the Borrower Bond may be assigned by the Borrower for any reason, unless the following conditions shall be satisfied: (i) the Trust and the Trustee shall have approved said assignment in writing; (ii) the assignee shall have expressly assumed in writing the full and faithful observance and performance of the Borrower's duties, covenants, obligations and agreements under this Loan Agreement and, to the extent permitted under applicable law, the Borrower Bond; (iii) immediately after such assignment, the assignee shall not be in default in the observance or performance of any duties, covenants, obligations or agreements of the Borrower under this Loan Agreement or the Borrower Bond; and (iv) the Trust shall have received an opinion of Bond Counsel to the effect that such assignment will not adversely affect the security of the holders of the Trust Bonds or the exclusion of the interest on the Trust Bonds from gross income for purposes of federal income taxation under Section 103(a) of the Code.

ARTICLE V

EVENTS OF DEFAULT AND REMEDIES

SECTION 5.01. Events of Default. If any of the following events occur, it is hereby defined as and declared to be and to constitute an “Event of Default”:

(a) failure by the Borrower to pay, or cause to be paid, any Trust Bond Loan Repayment required to be paid hereunder when due, which failure shall continue for a period of fifteen (15) days;

(b) failure by the Borrower to make, or cause to be made, any required payments of principal, redemption premium, if any, and interest on any bonds, notes or other obligations of the Borrower issued under the Borrower Bond Resolution (other than the Loan and the Borrower Bond) or otherwise secured by all or a portion of the property pledged under the Borrower Bond Resolution, after giving effect to the applicable grace period;

(c) failure by the Borrower to pay, or cause to be paid, the Administrative Fee or any late charges incurred hereunder or any portion thereof when due or to observe and perform any duty, covenant, obligation or agreement on its part to be observed or performed under this Loan Agreement, other than as referred to in subsection (a) of this Section 5.01 or other than the obligations of the Borrower contained in Section 2.02(d)(ii) hereof and in Exhibit F hereto, which failure shall continue for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Borrower by the Trustee, unless the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in such notice is correctable but cannot be corrected within the applicable period, the Trustee may not unreasonably withhold its consent to an extension of such time up to 120 days from the delivery of the written notice referred to above if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the Event of Default is corrected;

(d) any representation made by or on behalf of the Borrower contained in this Loan Agreement, or in any instrument furnished in compliance with or with reference to this Loan Agreement or the Loan, is false or misleading in any material respect;

(e) a petition is filed by or against the Borrower under any federal or state bankruptcy or insolvency law or other similar law in effect on the date of this Loan Agreement or thereafter enacted, unless in the case of any such petition filed against the Borrower such petition shall be dismissed within thirty (30) days after such filing and such dismissal shall be final and not subject to appeal; or the Borrower shall become insolvent or bankrupt or shall make an assignment for the benefit of its creditors; or a custodian (including, without limitation, a receiver, liquidator or trustee of the Borrower or any of its property shall be appointed by court order or take possession of the Borrower or its property or assets if such order remains in effect or such possession continues for more than thirty (30) days;

(f) the Borrower shall generally fail to pay its debts as such debts become due; and

(g) failure of the Borrower to observe or perform such additional duties, covenants, obligations, agreements or conditions as are required by the Trust and specified in Exhibit F attached hereto and made a part hereof.

SECTION 5.02. Notice of Default. The Borrower shall give the Trustee and the Trust prompt telephonic notice of the occurrence of any Event of Default referred to in Section 5.01(d) or (e) hereof and of the occurrence of any other event or condition that constitutes an Event of Default at such time as any senior administrative or financial officer of the Borrower becomes aware of the existence thereof.

SECTION 5.03. Remedies on Default. Whenever an Event of Default referred to in Section 5.01 hereof shall have occurred and be continuing, the Borrower acknowledges the rights of the Trustee and of any Bond Insurer to direct any and all remedies in accordance with the terms of the Bond Resolution, and the Borrower also acknowledges that the Trust shall have the right to take, or to direct the Trustee to take, any action permitted or required pursuant to the Bond Resolution and to take whatever other action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due hereunder or to enforce the observance and performance of any duty, covenant, obligation or agreement of the Borrower hereunder.

In addition, if an Event of Default referred to in Section 5.01(a) hereof shall have occurred and be continuing, the Trust shall, to the extent allowed by applicable law and to the extent and in the manner set forth in the Bond Resolution, have the right to declare, or to direct the Trustee to declare, all Loan Repayments and all other amounts due hereunder (including, without limitation, payments under the Borrower Bond) together with the prepayment premium, if any, calculated pursuant to Section 3.07 hereof to be immediately due and payable, and upon notice to the Borrower the same shall become due and payable without further notice or demand.

SECTION 5.04. Attorneys' Fees and Other Expenses. The Borrower shall on demand pay to the Trust or the Trustee the reasonable fees and expenses of attorneys and other reasonable expenses (including, without limitation, the reasonably allocated costs of in-house counsel and legal staff) incurred by either of them in the collection of Trust Bond Loan Repayments or any other sum due hereunder or in the enforcement of the observation or performance of any other duties, covenants, obligations or agreements of the Borrower upon an Event of Default.

SECTION 5.05. Application of Moneys. Any moneys collected by the Trust or the Trustee pursuant to Section 5.03 hereof shall be applied (a) *first* to pay any attorneys' fees or other fees and expenses owed by the Borrower pursuant to Section 5.04 hereof, (b) *second*, to the extent available, to pay the Interest Portion then due and payable, (c) *third*, to the extent available, to pay the principal due and payable on the Loan, (d) *fourth*, to the extent available, to pay the Administrative Fee, any late charges incurred hereunder or any other amounts due and payable under this Loan Agreement, and (e) *fifth*, to the extent available, to pay the Interest Portion and the principal on the Loan and other amounts payable hereunder as such amounts become due and payable.

SECTION 5.06. No Remedy Exclusive; Waiver; Notice. No remedy herein conferred upon or reserved to the Trust or the Trustee is intended to be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right, remedy or power accruing upon any Event of Default shall impair any such right, remedy or power or shall be construed to be a waiver thereof, but any such right, remedy or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trust or the Trustee to exercise any remedy reserved to it in this Article V, it shall not be necessary to give any notice other than such notice as may be required in this Article V.

SECTION 5.07. Retention of Trust's Rights. Notwithstanding any assignment or transfer of this Loan Agreement pursuant to the provisions hereof or of the Bond Resolution, or anything else to the contrary contained herein, the Trust shall have the right upon the occurrence of an Event of Default to take any action, including (without limitation) bringing an action against the Borrower at law or in equity, as the Trust may, in its discretion, deem necessary to enforce the obligations of the Borrower to the Trust pursuant to Section 5.03 hereof.

ARTICLE VI

MISCELLANEOUS

SECTION 6.01. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when hand delivered or mailed by registered or certified mail, postage prepaid, to the Borrower at the address specified in Exhibit A-1 attached hereto and made a part hereof and to the Trust and the Trustee at the following addresses:

(a) Trust:

New Jersey Environmental Infrastructure Trust
3131 Princeton Pike
Building 6, Suite 201
Lawrenceville, New Jersey 08648
Attention: Executive Director

(b) Trustee:

U.S. Bank National Association
21 South Street, 3rd Floor
Morristown, New Jersey 07960
Attention: Corporate Trust Department

Any of the foregoing parties may designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent by notice in writing given to the others.

SECTION 6.02. Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the Trust and the Borrower and their respective successors and assigns.

SECTION 6.03. Severability. In the event any provision of this Loan Agreement shall be held illegal, invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate, render unenforceable or otherwise affect any other provision hereof.

SECTION 6.04. Amendments, Supplements and Modifications.

(a) Except as otherwise provided in this Section 6.04, this Loan Agreement may not be amended, supplemented or modified without the prior written consent of the Trust and the Borrower and without the satisfaction of all conditions set forth in Section 11.12 of the Bond Resolution. Notwithstanding the conditions set forth in Section 11.12 of the Bond Resolution, (i) Section 2.02(p) hereof may be amended, supplemented or modified upon the written consent of the Trust and the Borrower and without the consent of the Trustee, any Bond Insurer or any holders of the Trust Bonds, and (ii) Exhibit H hereto may be amended, supplemented or modified prior to the execution and delivery thereof as the Trust, in its sole discretion, shall determine to be necessary, desirable or convenient for the purpose of satisfying Rule 15c2-12

and the purpose and intent thereof as Rule 15c2-12, its purpose and intent may hereafter be interpreted from time to time by the SEC or any court of competent jurisdiction, and such amendment, supplement or modification shall not require the consent of the Borrower, the Trustee, any Bond Insurer or any holders of the Trust Bonds.

SECTION 6.05. Execution in Counterparts. This Loan Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 6.06. Applicable Law and Regulations. This Loan Agreement shall be governed by and construed in accordance with the laws of the State, including the Act and the Regulations, which Regulations are, by this reference thereto, incorporated herein as part of this Loan Agreement.

SECTION 6.07. Consents and Approvals. Whenever the written consent or approval of the Trust shall be required under the provisions of this Loan Agreement, such consent or approval may only be given by the Trust unless otherwise provided by law or by rules, regulations or resolutions of the Trust or unless expressly delegated to the Trustee and except as otherwise provided in Section 6.09 hereof.

SECTION 6.08. Captions. The captions or headings in this Loan Agreement are for convenience only and shall not in any way define, limit or describe the scope or intent of any provisions or sections of this Loan Agreement.

SECTION 6.09. Benefit of Loan Agreement; Compliance with Bond Resolution. This Loan Agreement is executed, among other reasons, to induce the purchase of the Trust Bonds. Accordingly, all duties, covenants, obligations and agreements of the Borrower herein contained are hereby declared to be for the benefit of and are enforceable by the Trust, the holders of the Trust Bonds and the Trustee. The Borrower covenants and agrees to observe and comply with, and to enable the Trust to observe and comply with, all duties, covenants, obligations and agreements contained in the Bond Resolution.

SECTION 6.10. Further Assurances. The Borrower shall, at the request of the Trust, authorize, execute, attest, acknowledge and deliver such further resolutions, conveyances, transfers, assurances, financing statements and other instruments as may be necessary or desirable for better assuring, conveying, granting, assigning and confirming the rights, security interests and agreements granted or intended to be granted by this Loan Agreement and the Borrower Bond.

IN WITNESS WHEREOF, the Trust and the Borrower have caused this Loan Agreement to be executed, sealed and delivered as of the date first above written.

**NEW JERSEY ENVIRONMENTAL
INFRASTRUCTURE TRUST**

[SEAL]

By: /s/Robert A. Briant, Sr.
Robert A. Briant, Sr.
Chairman

ATTEST:

/s/David E. Zimmer
David E. Zimmer
Executive Director

MIDDLESEX WATER COMPANY

[SEAL]

By: /s/ A. Bruce O'Connor
A. Bruce O'Connor
Vice President & CFO

ATTEST:

/s/ Kenneth J. Quinn
Kenneth J. Quinn, Secretary

[signature page]

SCHEDULE A

Certain Additional Loan Agreement Provisions

In addition to the terms defined in subsection (a) of Section 1.01 of this Loan Agreement, certain additional capitalized terms used in this Loan Agreement shall, unless the context clearly requires otherwise, have the meanings ascribed to such additional capitalized terms in this Schedule A.

Additional Definitions:

“Borrower” means Middlesex Water Company, a corporation duly created and validly existing under the laws of the State of New Jersey.

“Bond Resolution” means the “Environmental Infrastructure Trust Bond Resolution, Series 2010C”, as adopted by the Board of Directors of the Trust on or about October 21, 2010, authorizing the issuance of the Trust Bonds, and all further amendments and supplements thereto adopted in accordance with the provisions thereof.

“Borrower Bond Resolution” means the indenture of the Borrower entitled “Indenture of Mortgage” dated as of April 1, 1927, as amended and supplemented from time to time, in particular by a supplemental indenture detailing the terms of the Borrower Bond, dated as of December 1, 2010 and entitled “Thirty-NINTH Supplemental Indenture” (the “Supplemental Indenture”), pursuant to which the Borrower Bond has been issued.

“Interest Payment Dates” means February 1 and August 1 of each year, commencing on August 1, 2011.

“Loan” means the loan made by the Trust to the Borrower to finance or refinance a portion of the Cost of the Project pursuant to this Loan Agreement. For all purposes of this Loan Agreement, the amount of the Loan at any time shall be the initial aggregate principal amount of the Borrower Bond (which amount equals the amount actually deposited in the Project Loan Account at the Loan Closing plus the Borrower's allocable share of certain costs of issuance, and underwriter's discount for all Trust Bonds issued to finance the Loan), less any amount of such principal amount that has been repaid by the Borrower under this Loan Agreement and less any adjustment made pursuant to the provisions of the Bond Resolution, including, without limitation, Section 5.02(4) thereof, N.J.A.C. 7:22-4.26 and the appropriations act of the State Legislature authorizing the expenditure of Trust Bond proceeds to finance a portion of the Costs of the Project.

“Principal Payment Dates” means August 1 of each year, commencing on August 1, 2012.

SECTION 2.02(e)

Disposition of Environmental Infrastructure System. The Borrower shall not permit the disposition of all or substantially all of its Environmental Infrastructure System, directly or

indirectly, including, without limitation, by means of sale, lease, abandonment, sale of stock, statutory merger or otherwise (collectively, a "Disposition"), except on ninety (90) days' prior written notice to the Trust, and, in any event, shall not permit a Disposition unless the following conditions are met: (i) the Borrower shall, in accordance with Section 4.02 hereof, assign this Loan Agreement and the Borrower Bond and its rights and interests hereunder and thereunder to the purchaser or lessee of the Environmental Infrastructure System, and such purchaser or lessee shall assume all duties, covenants, obligations and agreements of the Borrower under this Loan Agreement and the Borrower Bond; and (ii) the Trust shall by appropriate action determine, in its sole discretion, that such sale, lease, abandonment or other disposition will not adversely affect (A) the Trust's ability to meet its duties, covenants, obligations and agreements under the Bond Resolution, (B) the value of this Loan Agreement or the Borrower Bond as security for the payment of Trust Bonds and the interest thereon, or (C) the excludability from gross income for federal income tax purposes of the interest on Trust Bonds then outstanding or that could be issued in the future.

SECTION 2.02(f)(x)

The Borrower will not have a reserve or replacement fund (within the meaning of Section 148(d)(1) of the Code) allocable to the Borrower Bond evidencing the Loan.

EXHIBIT A-1

Description of Project and Environmental Infrastructure System

A-1

EXHIBIT A-1

1) Name and Address of Local Unit:

Middlesex Water Company
1500 Ronson Road
Iselin, New Jersey 08830-0452

Attention: Richard M. Risoldi. Vice President - Operations

2) Description of the Project:

The proposed project will involve cleaning/relining and spot replacement of water mains, hydrants, service lines, and valves. Approximately forty five thousand feet of 4, 6, 8, 10, 12, 16 and 20-inch diameter water mains will be relined. The project will occur in the City of South Amboy. Additional work may also be performed on an as needed basis in the Townships of Edison, and Woodbridge, and the Boroughs of Metuchen, South Plainfield and Carteret.

3) Description of the Water Treatment System:

The Middlesex Water Company is an investor-owned water utility that provides water service to retail customers primarily in eastern Middlesex County. Water services are now furnished to approximately 58,000 retail customers located in an area of approximately 55 square miles of New Jersey in Woodbridge Township, the Boroughs of Metuchen and Carteret, portions of Edison Township and the Borough of South Plainfield and the City of South Amboy in Middlesex County, and a portion of the Township of Clark in Union County.

The Middlesex Water Company obtains water from both surface and groundwater sources; however, the principal source of supply is the Delaware and Raritan Canal, owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority.

EXHIBIT A-2

Description of Loan

See Schedule to Specimen Borrower Bond (Exhibit D hereto)

EXHIBIT B

Basis for Determination of Allowable Project Costs

B-1

EXHIBIT B

Basis for the Determination of Allowable Costs

The determination of the costs allowable for assistance from the New Jersey Environmental Infrastructure Financing Program is presented below:

Cost Classification	Application Amount	Allowable Amount
1. Administrative Expenses	\$ 99,000	\$ 97,900
2. Other Costs	\$...0	\$...0
3. Engineering Fees	\$ 160,000	\$ 160,000
4. Building Costs	\$ 3,300,000	\$ 3,263,330
5. Contingencies	\$ 165,000	\$ 138,770
6. Allowance for Planning and Design	\$ 276,000	\$ 276,000
7. Sub-Total	\$ 4,000,000	\$ 3,936,000
8. DEP Fee (Financed Portion (50%))		\$ 39,360
9. Total Project Costs	\$ 4,000,000	\$ 3,975,360
A. Fund Loan (50% of Sub-Total)		\$ 1,968,000
B. Trust Loan (50% of Sub-Total)		\$ 1,968,000
C. DEP Fee (Financed Portion (50%))		\$ 39,360

As a result of the review by the New Jersey Department of Environmental Protection, various line items may have been revised resulting in a change of the allowable costs for this project. The basis for the determination of the allowable costs is as follows:

1. Administrative Expenses:

The total amount requested for this line item on the application was \$99,000. The allowable administrative expense is authorized to be 3% of the total allowable building costs (Line Item No. 4). Therefore, the amount for the administrative line item is $\$3,263,330 \times 0.03 = \$97,900$.

Allowable Administrative Expenses are \$97,900.

2. Other Costs:

The amount requested for this line item on the application was \$0. Therefore, the total allowable amount for this line item is \$ 0.

Allowable Other Costs are \$0.

3. Engineering Fees:

The amount requested for this line item on the application was \$160,000.

Allowable Engineering Fees are \$160,000.

4. Building Costs:

The amount requested for this line item on the application was \$3,300,000. Due to the limit of local authorization amount, the Sub-Total line item is limited to \$3,936,000. This amount is therefore reduced to \$3,263,330.

Allowable Building Costs are \$3,263,330.

5. Contingencies:

The amount requested for this line item on the application was \$165,000. The allowable amount is authorized to be 5% of the allowable building cost. Therefore, the allowable amount for this line item is $3,263,330 \times 0.05 = \$163,167$. However, this line item is reduced to \$138,770 due to the limit of local authorization amount.

Allowable Contingencies are \$138,770.

6. Allowance for Planning and Design:

The amount requested for this line item on the application was \$276,000.. The allowable amount for this line item based on the allowable building costs and the planning and design allowance as per N.J.A.C. 7:22-5.12 is as follows:

$$\$250,000 + 0.12(3,263,330 - 1,000,000) = \$521,600$$

At the request of the applicant the amount is reduced to \$276,000.

Allowable Planning and Design Allowance is \$276,000.

7. Sub-Total:

The total amount applied for was \$4,000,000. The subtotal line item amount is \$3,936,000.

8. DEP Fee:

This item represents the DEP Loan Surcharge or Loan Origination Fee imposed by DEP as a portion of the cost of the project of the borrower. This DEP Loan Surcharge or Loan Origination Fee is a portion of the cost of the project that has been incurred for engineering and environmental services provided by DEP for the borrower in connection with, and as a condition precedent to, the inclusion of the project of the borrower in the 2010 Financing Program of the Trust, 50% of which will be financed for the Borrower as part of the Trust Loan made by the Trust to the Borrower from the proceeds of the Trust bonds sold as part of the 2010 Financing Program, 50% of which will be imposed as an annual administrative fee upon the Borrower by DEP (pursuant to the terms of the Fund Loan agreement and invoices evidencing such obligation to be submitted to the Borrower by or on behalf of DEP), and paid semi-annually by the Borrower to DEP in eight (8) equal installments commencing September 1, 2011 (regardless of the date of commencement of Fund Loan principal amortization). Upon the issuance of the Trust bonds, the Trust shall direct the Trustee for the Trust bonds to transfer to DEP from the Project Fund that portion (50%) of the DEP Loan Surcharge or Loan Origination Fee financed thereby and allocable to the Borrower. The DEP's authority to assess a Loan Surcharge or Loan Origination Fee was established pursuant to P.L. 2002, c.34 approved on July 1, 2002.

$$\text{DEP Fee} = \$3,936,000 \times 2\% = \underline{\$78,720}.$$

$\$78,720 \times .50 = \$39,360$ (financed through the Trust Loan and paid to DEP upon closing of the Trust Loan)

$\$78,720 \times .50 = \$39,360$ (paid as an annual administrative fee to DEP in 8 equal semiannual installments, commencing September 1, 2011).

9. Total Project Costs:

The total project costs are (Sub-Total + DEP Fee) \$3,975,360.

I. Disbursement to Borrower is \$3,936,000.

Fund Share is \$1,968,000 (50%)

Trust Share is \$1,968,000 (50%)

II. Disbursement to DEP is \$39,360.

EXHIBIT C

Estimated Disbursement Schedule

C-1

EXHIBIT C

1. Disbursement Schedule

The following is a schedule of the estimated disbursements for this loan. Disbursements to the Borrower for any given month shall not exceed the amounts indicated below plus any undisbursed from the previous months.

Year	Month	Fund Share (50%) Borrower Disbursement (\$)	Trust Share (50%) Borrower Disbursement (\$)	Trust Share DEP Disbursement (\$)	Total
2010	December			*39,360	*39,360
2011	January				
	February				
	March	75,000	75,000		\$ 150,000
	April	250,000	250,000		\$ 500,000
	May	325,000	325,000		\$ 650,000
	June	325,000	325,000		\$ 650,000
	July	350,000	350,000		\$ 700,000
	August	350,000	350,000		\$ 700,000
	September	200,000	200,000		\$ 400,000
	October	93,000	93,000		\$ 186,000
Total		\$ 1,968,000	\$ 1,968,000	\$ 39,360	\$ 3,975,360

* This represents that portion (50%) of the DEP Loan Surcharge or Loan Origination Fee that has been financed for the Borrower through the Trust Loan. No action is required on the part of the Borrower. The Trust will make a single transfer to DEP, through the Trust’s Trustee, on behalf of each Borrower in 2010 Financing Program for purposes of implementing this disbursement.

2. Project Schedule

The Borrower shall expeditiously initiate and complete the project in accordance with the project schedule which was submitted as part of the loan application repeated below. Failure to promptly initiate and complete the Project may result in the imposition of sanctions under N.J.A.C. 7:22-3.40 through 3.44 and N.J.A.C. 7:22-4.40 through 4.44. In addition, failure to promptly award all subagreement(s) for building the Project within 12 months of the date of this loan may result in a limitation on allowable costs as provided by N.J.A.C. 7:22-5.4 (d) 4. This limitation provides that costs incurred under contracts awarded after 12 months from the date of this loan are unallowable unless a specific extension has been granted by the Department, in the case of a Fund Loan, and the Trust, in the case of a Trust Loan.

<u>EVENT</u>	<u>DATE</u>
<u>Advertisement:</u> Water Mains	October 10, 2010
<u>Bid Receipt:</u> Water Mains	January 11, 2011
<u>Award:</u> Water Mains	February 11, 2011
<u>Issuance of Notice to Proceed:</u> Water Mains	March 11, 2011
<u>Completion of Construction:</u> Water Mains	October 11, 2011
<u>Initiation of Operation:</u> Water Mains	October 11, 2011
<u>Project Performance Certification:</u> Water Mains	October 11, 2012

EXHIBIT D

Specimen Borrower Bond

D-1

EXHIBIT E

Opinions of Borrower's Bond Counsel and General Counsel

EXHIBIT F

Additional Covenants and Requirements

None.

EXHIBIT G

**General Administrative Requirements for the
State Environmental Infrastructure Financing Program**

INSERT NJDEP Exhibit G

EXHIBIT H

Form of Continuing Disclosure Agreement

INSERT Form of Continuing Disclosure Agreement

LOAN AGREEMENT

BY AND BETWEEN

THE STATE OF NEW JERSEY,

**ACTING BY AND THROUGH THE NEW JERSEY
DEPARTMENT OF ENVIRONMENTAL PROTECTION,**

AND

MIDDLESEX WATER COMPANY

DATED AS OF DECEMBER 1, 2010

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NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE FUND LOAN AGREEMENT

THIS LOAN AGREEMENT, made and entered into as of December 1, 2010 by and between THE STATE OF NEW JERSEY, acting by and through the New Jersey Department of Environmental Protection, and the Borrower (capitalized terms used in this Loan Agreement shall have, unless the context otherwise requires, the meanings ascribed thereto in Section 1.01 hereof);

WITNESSETH THAT:

WHEREAS, the Borrower has, in accordance with the Regulations, made timely application to the State for a Loan to finance a portion of the Costs of the Project;

WHEREAS, the State has approved the Borrower's application for a Loan from Federal Funds, if and when received by and available to the State, and moneys from repayments of loans previously made from such Federal Funds, in the amount of the loan commitment set forth in Exhibit A-2 attached hereto and made a part hereof to finance a portion of the Costs of the Project;

WHEREAS, the New Jersey State Legislature has approved an appropriations act that authorizes an expenditure of said proceeds, Federal Funds or related moneys to finance a portion of the Costs of the Project;

WHEREAS, the Borrower, in accordance with the Business Corporation Law and all other applicable law, will issue a Borrower Bond to the State evidencing said Loan at the Loan Closing; and

WHEREAS, in accordance with the New Jersey Environmental Infrastructure Trust Act, P.L. 1985, c. 334, as amended, and the Regulations, the Borrower has been awarded a Trust Loan for a portion of the Costs of the Project plus, if applicable to the Borrower, capitalized interest on the Trust Loan and certain costs of issuance.

NOW, THEREFORE, for and in consideration of the award of the Loan by the State, the Borrower agrees to complete the Project and to perform under this Loan Agreement in accordance with the conditions, covenants and procedures set forth herein and attached hereto as part hereof, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions.

(a) The following terms as used in this Loan Agreement shall, unless the context clearly requires otherwise, have the following meanings:

“Administrative Fee” means an annual fee of up to one percent (1.0%) of the initial principal amount of the Loan or such lesser amount, if any, as may be authorized by any act of the New Jersey State Legislature and as the State may approve from time to time.

“Authorized Officer” means, in the case of the Borrower, any person or persons authorized pursuant to a resolution of the board of directors of the Borrower to perform any act or execute any document relating to the Loan, the Borrower Bond or this Loan Agreement.

“Bond Counsel” means a law firm appointed or approved by the State, as the case may be, having a reputation in the field of municipal law whose opinions are generally acceptable by purchasers of municipal bonds.

“Borrower” means the corporation that is a party to and is described in Schedule A to this Loan Agreement, and its successors and assigns.

“Borrower Bond” means the general obligation bond, note, debenture or other evidence of indebtedness authorized, executed, attested and delivered by the Borrower to the State and authenticated on behalf of the Borrower to evidence the Loan, a specimen of which is attached hereto as Exhibit D and made a part hereof.

“Borrowers” means any other Local Government Unit or Private Entity (as such terms are defined in the Regulations) authorized to construct, operate and maintain Environmental Infrastructure Facilities that have entered into Loan Agreements with the State pursuant to which the State will make Loans to such recipients from Federal Funds.

“Business Corporation Law” means the "New Jersey Business Corporation Act", constituting Chapter 263 of the Pamphlet Laws of 1968 of the State (codified at N.J.S.A. 14A:1-1 *et seq.*), as the same may from time to time be amended and supplemented.

“Code” means the Internal Revenue Code of 1986, as the same may from time to time be amended and supplemented, including any regulations promulgated thereunder, any successor code thereto and any administrative or judicial interpretations thereof.

“Costs” means those costs that are eligible, reasonable, necessary, allocable to the Project and permitted by generally accepted accounting principles, including Allowances and Building Costs (as defined in the Regulations), as shall be determined on a project-specific basis in accordance with the Regulations as set forth in Exhibit B hereto, as the same may be amended by subsequent eligible costs as evidenced by a certificate of an authorized officer of the State.

“Department” means the New Jersey Department of Environmental Protection.

“Environmental Infrastructure Facilities” means Water Supply Facilities (as such term is defined in the Regulations).

“Environmental Infrastructure System” means the Environmental Infrastructure Facilities of the Borrower, including the Project, described in Exhibit A-1 attached hereto and made a part hereof for which the Borrower is borrowing the Loan under this Loan Agreement.

“Event of Default” means any occurrence or event specified in Section 5.01 hereof.

“Excess Project Funds” shall have the meaning set forth in Section 3.03A hereof.

“Federal Funds” means those funds awarded to the State pursuant to the Clean Water Act (33 U.S.C. Sec.1251 *et seq.*) or the Safe Drinking Water Act (42 U.S.C. Sec.300f *et seq.*), as the same may from time to time be amended and supplemented.

“Loan” means the loan made by the State to the Borrower to finance or refinance a portion of the Costs of the Project pursuant to this Loan Agreement. For all purposes of this Loan Agreement, the principal amount of the Loan at any time shall be the amount of the loan commitment set forth in Exhibit A-2 attached hereto and made a part hereof (such amount being also specified as the initial aggregate principal amount of the Borrower Bond) less any amount of such principal amount that has been repaid by the Borrower under this Loan Agreement and less any adjustment made for low bid or final building costs pursuant to the provisions of N.J.A.C. 7:22-3.26 and the appropriations act of the New Jersey State Legislature authorizing the expenditure of moneys to finance a portion of the Costs of the Project.

“Loan Agreement” means this Loan Agreement, including Schedule A and the Exhibits attached hereto, as it may be supplemented, modified or amended from time to time in accordance with the terms hereof.

“Loan Agreements” means any other loan agreements entered into by and between the State and one or more of the Borrowers pursuant to which the State will make Loans to such Borrowers from Federal Funds.

“Loan Closing” means the date upon which the Borrower shall deliver its Borrower Bond, as previously authorized, executed, attested and, if applicable, authenticated, to the State.

“Loan Repayments” means the sum of (i) the repayments of the principal amount of the Loan payable by the Borrower pursuant to Section 3.03(a) of this Loan Agreement and (ii) any late charges incurred hereunder, but shall not include the Administrative Fee.

“Loan Term” means the term of this Loan Agreement provided in Sections 3.01 and 3.03 hereof and in Exhibit A-2 attached hereto and made a part hereof.

“Loans” means the loans made by the State to the Borrowers under the Loan Agreements from moneys from Federal Funds.

“Master Program Trust Agreement” means that certain Master Program Trust Agreement, dated as of November 1, 1995, by and among the Trust, the State, United States Trust Company of New York, as Master Program Trustee thereunder, The Bank of New York (NJ), in several capacities thereunder, and First Fidelity Bank, N.A. (predecessor to Wachovia Bank, National Association), in several capacities thereunder, as supplemented by that certain Agreement of Resignation of Outgoing Master Program Trustee, Appointment of Successor Master Program Trustee and Acceptance Agreement, dated as of November 1, 2001, by and among United States Trust Company of New York, as Outgoing Master Program Trustee, State Street Bank and Trust Company, N.A. (predecessor to U.S. Bank Trust National Association), as Successor Master Program Trustee, and the Trust, as the same may be amended and supplemented from time to time in accordance with its terms.

“Prime Rate” means the prevailing commercial interest rate announced by the Trustee from time to time in the State as its prime lending rate.

“Project” means the Environmental Infrastructure Facilities of the Borrower described in Exhibit A-1 attached hereto and made a part hereof, which constitutes a project for which the State is permitted to make a loan to the Borrower pursuant to the Regulations, all or a portion of the Costs of which is financed or refinanced by the State through the making of the Loan under this Loan Agreement and which may be identified under either the Drinking Water or Clean Water Project Lists with the Project Number specified in Exhibit A-1 attached hereto.

“Regulations” means the rules and regulations, as applicable, now or hereafter promulgated under N.J.A.C. 7:22-3 *et seq.*, 7:22-4 *et seq.*, 7:22-5 *et seq.*, 7:22-6 *et seq.*, 7:22-7 *et seq.*, 7:22-8 *et seq.*, 7:22-9 *et seq.* and 7:22-10 *et seq.*, as the same may from time to time be amended and supplemented.

“State” means the State of New Jersey, acting, unless otherwise specifically indicated, by and through the Department, and its successors and assigns.

“Trust” means the New Jersey Environmental Infrastructure Trust, a public body corporate and politic with corporate succession duly created and validly existing under and by virtue of P.L. 1985, c. 334, as amended (N.J.S.A. 58:11B-1 *et seq.*).

“Trust Loan” means the loan made to the Borrower by the Trust pursuant to the Trust Loan Agreement.

“Trust Loan Agreement” means the loan agreement by and between the Borrower and the Trust dated as of December 1, 2010 to finance or refinance a portion of the Costs of the Project.

“Trustee” means, initially, U.S. Bank National Association, the Trustee appointed by the Trust and its successors as Trustee under the Bond Resolution, as provided in Article X of the Bond Resolution.

(b) In addition to the capitalized terms defined in subsection (a) of this Section 1.01, certain additional capitalized terms used in this Loan Agreement shall, unless the context clearly

requires otherwise, have the meanings ascribed to such additional capitalized terms in Schedule A attached hereto and made a part hereof.

(c) Except as otherwise defined herein or where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, corporations, agencies and districts. Words importing one gender shall include the other gender.

ARTICLE II

REPRESENTATIONS AND COVENANTS OF BORROWER

SECTION 2.01. Representations of Borrower. The Borrower represents for the benefit of the State as follows:

(a) Organization and Authority.

(i) The Borrower is a corporation duly created and validly existing under and pursuant to the Constitution and statutes of the State of New Jersey, including the Business Corporation Law.

(ii) The acting officers of the Borrower who are contemporaneously herewith performing or have previously performed any action contemplated in this Loan Agreement either are or, at the time any such action was performed, were the duly appointed or elected officers of such Borrower empowered by applicable New Jersey law and, if applicable, authorized by resolution of the Borrower to perform such actions. To the extent any such action was performed by an officer no longer the duly acting officer of such Borrower, all such actions previously taken by such officer are still in full force and effect.

(iii) The Borrower has full legal right and authority and all necessary licenses and permits required as of the date hereof to own, operate and maintain its Environmental Infrastructure System, to carry on its activities relating thereto, to execute, attest and deliver this Loan Agreement and the Borrower Bond, to authorize the authentication of the Borrower Bond, to sell the Borrower Bond to the State, to undertake and complete the Project and to carry out and consummate all transactions contemplated by this Loan Agreement.

(iv) The proceedings of the Borrower's board of directors approving this Loan Agreement and the Borrower Bond, authorizing the execution, attestation and delivery of this Loan Agreement and the Borrower Bond, authorizing the sale of the Borrower Bond to the State, authorizing the authentication of the Borrower Bond on behalf of the Borrower and authorizing the Borrower to undertake and complete the Project, including, without limitation, the Borrower Bond Resolution (collectively, the "Proceedings"), have been duly and lawfully adopted in accordance with the Business Corporation Law and other applicable New Jersey law at a meeting or meetings that were duly called and held in accordance with the Borrower By-Laws and at which quorums were present and acting throughout.

(v) By official action of the Borrower taken prior to or concurrent with the execution and delivery hereof, including, without limitation, the Proceedings, the Borrower has duly authorized, approved and consented to all necessary action to be taken by the Borrower for: (A) the execution, attestation, delivery and performance of this Loan Agreement and the transactions contemplated hereby; (B) the issuance of the Borrower Bond and the sale thereof to the State upon the terms set forth herein; and (C)

the execution, delivery and due performance of any and all other certificates, agreements and instruments that may be required to be executed, delivered and performed by the Borrower in order to carry out, give effect to and consummate the transactions contemplated by this Loan Agreement.

(vi) This Loan Agreement and the Borrower Bond have each been duly authorized by the Borrower and duly executed, attested and delivered by Authorized Officers of the Borrower, and the Borrower Bond has been duly sold by the Borrower to the State, duly authenticated by the trustee or paying agent, if applicable, under the Borrower Bond Resolution and duly issued by the Borrower in accordance with the terms of the Borrower Bond Resolution; and assuming that the State has all the requisite power and authority to authorize, execute, attest and deliver, and has duly authorized, executed, attested and delivered, this Loan Agreement, and assuming further that this Loan Agreement is the legal, valid and binding obligation of the State, enforceable against the State in accordance with its terms, each of this Loan Agreement and the Borrower Bond constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its respective terms, except as the enforcement thereof may be affected by bankruptcy, insolvency or other laws or the application by a court of legal or equitable principles affecting creditors' rights; and the information contained under "Description of Loan" in Exhibit A-2 attached hereto and made a part hereof is true and accurate in all respects.

(b) Full Disclosure. There is no fact that the Borrower has not disclosed to the State in writing on the Borrower's application for the Loan or otherwise that materially adversely affects or (so far as the Borrower can now foresee) that will materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, or the ability of the Borrower to make all Loan Repayments or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(c) Pending Litigation. There are no proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower in any court or before any governmental authority or arbitration board or tribunal that, if adversely determined, would materially adversely affect (i) the undertaking or completion of the Project, (ii) the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, (iii) the ability of the Borrower to make all Loan Repayments, (iv) the authorization, execution, attestation or delivery of this Loan Agreement or the Borrower Bond, (v) the issuance of the Borrower Bond and the sale thereof to the State, (vi) the adoption of the Borrower Bond Resolution, or (vii) the Borrower's ability otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond, which proceedings have not been previously disclosed in writing to the State either in the Borrower's application for the Loan or otherwise.

(d) Compliance with Existing Laws and Agreements. (i) The authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond by the Borrower, (ii) the authentication of the Borrower Bond by the trustee or paying agent under the Borrower Bond Resolution, as the case may be, and the sale of the Borrower Bond to the State,

(iii) the adoption of the Borrower Bond Resolution, (iv) the observance and performance by the Borrower of its duties, covenants, obligations and agreements hereunder and thereunder, (v) the consummation of the transactions provided for in this Loan Agreement, the Borrower Bond Resolution and the Borrower Bond, and (vi) the undertaking and completion of the Project will not (A) other than the lien, charge or encumbrance created hereby, by the Borrower Bond, by the Borrower Bond Resolution and by any other outstanding debt obligations of the Borrower that are at parity with the Borrower Bond as to lien on, and source and security for payment thereon from, the revenues of the Borrower's Environmental Infrastructure System, result in the creation or imposition of any lien, charge or encumbrance upon any properties or assets of the Borrower pursuant to, (B) result in any breach of any of the terms, conditions or provisions of, or (C) constitute a default under, any existing resolution, outstanding debt or lease obligation, trust agreement, indenture, mortgage, deed of trust, loan agreement or other instrument to which the Borrower is a party or by which the Borrower, its Environmental Infrastructure System or any of its properties or assets may be bound, nor will such action result in any violation of the provisions of the charter or other document pursuant to which the Borrower was established or any laws, ordinances, injunctions, judgments, decrees, rules, regulations or existing orders of any court or governmental or administrative agency, authority or person to which the Borrower, its Environmental Infrastructure System or its properties or operations is subject.

(e) No Defaults. No event has occurred and no condition exists that, upon the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the State, the adoption of the Borrower Bond Resolution or the receipt of the amount of the Loan, would constitute an Event of Default hereunder. The Borrower is not in violation of, and has not received notice of any claimed violation of, any term of any agreement or other instrument to which it is a party or by which it, its Environmental Infrastructure System or its properties may be bound, which violation would materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System or the ability of the Borrower to make all Loan Repayments, to pay all other amounts due hereunder or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(f) Governmental Consent. The Borrower has obtained all permits and approvals required to date by any governmental body or officer for the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, for the issuance of the Borrower Bond and the sale thereof to the State, for the adoption of the Borrower Bond Resolution, for the making, observance and performance by the Borrower of its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond and for the undertaking or completion of the Project and the financing or refinancing thereof, including, but not limited to, if required, the approval by the New Jersey Board of Public Utilities (the "BPU") of the issuance by the Borrower of the Borrower Bond to the State and any other approvals required therefor by the BPU; and the Borrower has complied with all applicable provisions of law requiring any notification, declaration, filing or registration with any governmental body or officer in connection with the making, observance and performance by the Borrower of its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond or with the undertaking or completion of the Project and the financing or refinancing thereof. No consent, approval or authorization of, or filing, registration or qualification with, any

governmental body or officer that has not been obtained is required on the part of the Borrower as a condition to the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the State, the undertaking or completion of the Project or the consummation of any transaction herein contemplated.

(g) Compliance with Law. The Borrower:

(i) is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject, the failure to comply with which would materially adversely affect (A) the ability of the Borrower to conduct its activities or to undertake or complete the Project, (B) the ability of the Borrower to make the Loan Repayments and to pay all other amounts due hereunder, or (C) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System; and

(ii) has obtained all licenses, permits, franchises or other governmental authorizations presently necessary for the ownership of its properties or for the conduct of its activities that, if not obtained, would materially adversely affect (A) the ability of the Borrower to conduct its activities or to undertake or complete the Project, (B) the ability of the Borrower to make the Loan Repayments and to pay all other amounts due hereunder, or (C) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System.

(h) Use of Proceeds. The Borrower will apply the proceeds of the Loan from the State as described in Exhibit B attached hereto and made a part hereof (i) to finance or refinance a portion of the Costs of the Borrower's Project; and (ii) where applicable, to reimburse the Borrower for a portion of the Costs of the Borrower's Project, which portion was paid or incurred in anticipation of reimbursement by the State and is eligible for such reimbursement under and pursuant to the Regulations, the Code and any other applicable law. All of such costs constitute Costs for which the State is authorized to make Loans to the Borrower pursuant to the Regulations.

SECTION 2.02. Particular Covenants of Borrower.

(a) Promise to Pay. The Borrower unconditionally and irrevocably promises in accordance with the terms of and to the extent provided in the Borrower Bond Resolution, to make punctual payment of the principal of the Loan and the Borrower Bond, and all other amounts due under this Loan Agreement and the Borrower Bond according to their respective terms.

(b) Performance Under Loan Agreement; Rates. The Borrower covenants and agrees (i) to comply with all applicable state and federal laws, rules and regulations in the performance of this Loan Agreement; (ii) to maintain its Environmental Infrastructure System in good repair and operating condition; (iii) to cooperate with the State in the observance and performance of the respective duties, covenants, obligations and agreements of the Borrower and the State under this Loan Agreement; and (iv) to establish, levy and collect rents, rates and other charges for the products and services provided by its Environmental Infrastructure System, which rents, rates

and other charges shall be at least sufficient to comply with all covenants pertaining thereto contained in, and all other provisions of, any bond resolution, trust indenture or other security agreement, if any, relating to any bonds, notes or other evidences of indebtedness issued or to be issued by the Borrower, including without limitation rents, rates and other charges, together with other available moneys, sufficient to pay the principal of, and interest if any on, the Borrower Bond, plus all other amounts due hereunder.

(c) Revenue Obligation; No Prior Pledges. The Borrower shall not be required to make payments under this Loan Agreement except from the revenues of its Environmental Infrastructure System and from such other funds of such Environmental Infrastructure System legally available therefor and from any other sources pledged to such payment pursuant to subsection (a) of this Section 2.02. In no event shall the Borrower be required to make payments under this Loan Agreement from any revenues or receipts not derived from its Environmental Infrastructure System or pledged pursuant to subsection (a) of this Section 2.02. Except for (i) loan repayments required with respect to the Trust Loan, (ii) the debt service on any future bonds or notes of the Borrower issued at parity with the Borrower Bond under the Borrower Bond Resolution, and (iii) the debt service on any bonds, notes or evidences of indebtedness of the Borrower at parity with the Borrower Bond under the Borrower Bond Resolution and currently outstanding or issued on the date hereof, the revenues derived by the Borrower from its Environmental Infrastructure System, after the payment of all costs of operating and maintaining the Environmental Infrastructure System, are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the obligation of the Borrower to make Loan Repayments under this Loan Agreement and the Borrower Bond, and all corporate or other action on the part of the Borrower to that end has been and will be duly and validly taken.

(d) Completion of Project and Provision of Moneys Therefor. The Borrower covenants and agrees (i) to exercise its best efforts in accordance with prudent environmental infrastructure utility practice to complete the Project and to accomplish such completion on or before the estimated Project completion date set forth in Exhibit G hereto and made a part hereof; (ii) to comply with the terms and provisions contained in Exhibit G hereto; and (iii) to provide from its own fiscal resources all moneys, in excess of the total amount of loan proceeds it receives under the Loan and Trust Loan, required to complete the Project.

(e) See Section 2.02(e) as set forth in Schedule A attached hereto, made a part hereof and incorporated in this Section 2.02(e) by reference as if set forth in full herein.

(f) Reserved.

(g) Operation and Maintenance of Environmental Infrastructure System. The Borrower covenants and agrees that it shall, in accordance with prudent environmental infrastructure utility practice, (i) at all times operate the properties of its Environmental Infrastructure System and any business in connection therewith in an efficient manner, (ii) maintain its Environmental Infrastructure System in good repair, working order and operating condition, and (iii) from time to time make all necessary and proper repairs, renewals, replacements, additions, betterments and improvements with respect to its Environmental

Infrastructure System so that at all times the business carried on in connection therewith shall be properly and advantageously conducted.

(h) Records and Accounts.

(i) The Borrower shall keep accurate records and accounts for its Environmental Infrastructure System (the "System Records") separate and distinct from its other records and accounts (the "General Records"). Such System Records shall be audited annually by an independent or certified public accountant, which may be part of the annual audit of the General Records of the Borrower. Such System Records and General Records shall be made available for inspection by the State at any reasonable time upon prior written notice, and a copy of such annual audit(s) therefor, including all written comments and recommendations of such accountant, shall be furnished to the State within 150 days of the close of the fiscal year being so audited or, with the consent of the State, such additional period as may be provided by law.

(ii) Within 30 days following receipt of any Loan proceeds, including without limitation the "Allowance for Administrative Costs" or the "Allowance for Planning and Design" set forth in Exhibit B hereto, the Borrower shall allocate such proceeds to an expenditures in a manner that satisfies the requirements of Treasury Regulation Sec.1.148-6(d) and transmit a copy of each such allocation to the State. No portion of the Allowance for Administrative Costs will be allocated to a cost other than a cost described in N.J.A.C. 7:22-5.11(a) 3, 4 or 6. No portion of the Allowance for Planning and Design will be allocated to a cost other than a cost described N.J.A.C. 7:22-5.12, or other costs of the Borrower's Environmental Infrastructure System which are "capital expenditures," within the meaning of Treasury Regulations Sec.1.150-1. The Borrower shall retain records of such allocations for at least until the date that is three years after the scheduled maturity date of the Loan. The Borrower shall make such records available to the State within 15 days of any request by the State.

(i) Inspections; Information. The Borrower shall permit the State and any party designated by the State, at any and all reasonable times during construction of the Project and thereafter upon prior written notice, to examine, visit and inspect the property, if any, constituting the Project and to inspect and make copies of any accounts, books and records, including (without limitation) its records regarding receipts, disbursements, contracts, investments and any other matters relating thereto and to its financial standing, and shall supply such reports and information as the State may reasonably require in connection therewith.

(j) Insurance. The Borrower shall maintain or cause to be maintained, in force, insurance policies with responsible insurers or self-insurance programs providing against risk of direct physical loss, damage or destruction of its Environmental Infrastructure System at least to the extent that similar insurance is usually carried by utilities constructing, operating and maintaining Environmental Infrastructure Facilities of the nature of the Borrower's Environmental Infrastructure System, including liability coverage, all to the extent available at reasonable cost but in no case less than will satisfy all applicable regulatory requirements.

(k) Costs of Project. The Borrower certifies that the building cost of the Project, as listed in Exhibit B hereto and made a part hereof, is a reasonable and accurate estimation thereof, and it will supply to the State a certificate from a licensed professional engineer authorized to practice in the State stating that such building cost is a reasonable and accurate estimation and that the useful life of the Project exceeds the maturity date of the Borrower Bond.

(l) Delivery of Documents. Concurrently with the delivery of this Loan Agreement (as previously authorized, executed and attested) at the Loan Closing, the Borrower will cause to be delivered to the State each of the following items:

(i) an opinion of the Borrower's bond counsel substantially in the form of Exhibit E hereto; provided, however, that the State may permit portions of such opinion to be rendered by general counsel to the Borrower and may permit variances in such opinion from the form set forth in Exhibit E if such variances are acceptable to the State;

(ii) counterparts of this Loan Agreement as previously executed and attested by the parties hereto;

(iii) copies of those resolutions finally adopted by the board of directors of the Borrower and requested by the State, including, without limitation, (A) the resolution of the Borrower authorizing the execution, attestation and delivery of this Loan Agreement, (B) the Borrower Bond Resolution, as amended and supplemented as of the date of the Loan Closing, authorizing the execution, attestation, authentication, sale and delivery of the Borrower Bond to the State, (C) the resolution of the Borrower confirming the details of the sale of the Borrower Bond to the State, each of said resolutions of the Borrower being certified by an Authorized Officer of the Borrower as of the date of the Loan Closing, (D) the resolution of the BPU approving the issuance by the Borrower of the Borrower Bond to the State and setting forth any other approvals required therefor by the BPU, if applicable, and (E) any other Proceedings; and

(iv) the certificates of insurance coverage as required pursuant to the terms of Section 3.06(c) hereof and such other certificates, documents, opinions and information as the State may require in Exhibit F hereto, if any.

(m) Execution and Delivery of Borrower Bond. Concurrently with the delivery of this Loan Agreement at the Loan Closing, the Borrower shall also deliver to the State the Borrower Bond, as previously executed, attested and, if applicable, authenticated.

(n) Notice of Material Adverse Change. The Borrower shall promptly notify the State of any material adverse change in the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, or in the ability of the Borrower to make all Loan Repayments and otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(o) Continuing Representations. The representations of the Borrower contained herein shall be true at the time of the execution of this Loan Agreement and at all times during the term of this Loan Agreement.

(p) Additional Covenants and Requirements. (i) No later than the Loan Closing and, if necessary, in connection with the making of the Loan, additional covenants and requirements have been included in Exhibit F hereto and made a part hereof. Such covenants and requirements may include, but need not be limited to, the maintenance of specified levels of Environmental Infrastructure System rates, the issuance of additional debt of the Borrower, and the transfer of revenues and receipts from the Borrower's Environmental Infrastructure System. The Borrower agrees to observe and comply with each such additional covenant and requirement, if any, included in Exhibit F hereto. (ii) Additional defined terms, covenants, representations and requirements have been included in Schedule A attached hereto and made a part hereof. Such additional defined terms, covenants, representations and requirements are incorporated in this Loan Agreement by reference thereto as if set forth in full herein and the Borrower hereby agrees to observe and comply with each such additional term, covenant, representation and requirement included in Schedule A as if the same were set forth in their entirety where reference thereto is made in this Loan Agreement.

ARTICLE III

LOAN TO BORROWER; AMOUNTS PAYABLE; GENERAL AGREEMENTS

SECTION 3.01. Loan; Loan Term. The State hereby agrees to make the Loan as described in Exhibit A-2 hereof and to disburse proceeds of the Loan to the Borrower in accordance with Section 3.02 and Exhibit C hereof, and the Borrower hereby agrees to borrow and accept the Loan from the State upon the terms set forth in Exhibit A-2 attached hereto and made a part hereof; provided, however, that the State shall be under no obligation to make the Loan if (a) at the Loan Closing, the Borrower does not deliver to the State a Borrower Bond and such other documents required under Section 2.02(l) hereof, or (b) an Event of Default has occurred and is continuing under this Loan Agreement. Although the State intends to disburse proceeds of the Loan to the Borrower at the times and up to the amounts set forth in Exhibit C to pay a portion of the Costs of the Project, due to unforeseen circumstances there may not be sufficient Federal Funds on deposit on any date to make the disbursement in such amount. Nevertheless, the Borrower agrees that the aggregate principal amount set forth in Exhibit A-2 hereto shall constitute the initial principal amount of the Loan (as the same may be adjusted downward in accordance with the definition thereof), and the State shall have no obligation thereafter to loan any additional amounts to the Borrower.

The Borrower shall have no legal or equitable interest in the Federal Funds received by and available to the State or in moneys from repayments of loans previously made from Federal Fund by the State.

The Borrower shall use the proceeds of the Loan strictly in accordance with Section 2.01(h) hereof.

The payment obligations created under this Loan Agreement and the obligations to pay the principal of and other amounts due under the Borrower Bond are each direct, general, irrevocable and unconditional obligations of the Borrower payable from any source legally available to the Borrower in accordance with the terms of and to the extent provided in the Borrower Bond Resolution.

SECTION 3.02. Disbursement of Loan Proceeds.

(a) The State shall disburse Federal Funds earmarked for the Loan to the Borrower in accordance with the terms hereof. Before each and every disbursement of the proceeds of the Loan by the State to the Borrower, the Borrower shall in accordance with the procedures set forth in the Regulations submit to the State a requisition executed by an Authorized Officer of the Borrower.

(b) The State shall not be under any obligation to disburse any Loan proceeds to the Borrower under this Loan Agreement, unless:

(i) the Loan Closing shall have occurred on the date established therefor by the State;

(ii) there shall be Federal Funds from time to time to fund the Loan, as determined solely by the State;

(iii) in accordance with the "New Jersey Environmental Infrastructure Trust Act", P.L. 1985, c. 334, as amended (N.J.S.A. 58:11B-1 *et seq.*), and the Regulations, the Borrower shall have timely applied for, shall have been awarded and, prior to or simultaneously with the Loan Closing, shall have closed a Trust Loan for a portion of the Allowable Costs (as defined in such Regulations) of the Project in an amount not in excess of the amount of Allowable Costs of the Project financed by the Loan from the State, plus the amount of: (i) capitalized interest during the Project construction period, if any, (ii) the cost of funding reserve capacity for the Project, if any, as well as that portion of the Debt Service Reserve Fund (as defined in the Trust Loan Agreement) (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution) attributable to the cost of funding such reserve capacity for the Project, and (iii) certain issuance expenses related thereto, including, if applicable, a municipal bond insurance policy premium;

(iv) the Borrower shall have on hand moneys to pay for the greater of (A) that portion of the total Costs of the Project that is not eligible to be funded from the Loan or the Trust Loan, or (B) that portion of the total Costs of the Project that exceeds the actual amounts of the loan commitments made by the State and the Trust, respectively, for the Loan and the Trust Loan; and

(v) no Event of Default nor any event that, with the passage of time or service of notice or both, would constitute an Event of Default shall have occurred and be continuing hereunder.

SECTION 3.03. Amounts Payable.

(a) The Borrower shall repay the Loan at zero-interest in principal installments payable to the Trustee semiannually on the Principal Payment Dates, in accordance with the schedule set forth in Exhibit A-2 attached hereto and made a part hereof, as the same may be amended or modified by the State, in particular, without limitation, to make any adjustments to the amount of the Loan in accordance with the definition thereof; provided, however, that the amount of any reduction in the principal amount of the Loan pursuant to N.J.A.C. 7:22-3.26 shall be credited to the principal payments set forth in Exhibit A-2 in inverse order of their maturity. The obligations of the Borrower under the Borrower Bond shall be deemed to be amounts payable under this Section 3.03. Each payment made to the Trustee pursuant to the Borrower Bond shall be deemed to be a credit against the corresponding obligation of the Borrower under this Section 3.03, and any such payment made to the Trustee shall fulfill the Borrower's obligation to pay such amount hereunder and under the Borrower Bond. Each payment made to the Trustee pursuant to this Section 3.03 shall be applied to the principal of the Loan.

(b) In addition to the principal payments on the Loan required by subsection (a) of this Section 3.03, the Borrower shall pay a late charge for any such payment that is received by the Trustee later than the tenth (10th) day following its due date in an amount equal to the greater of twelve percent (12%) per annum or the Prime Rate plus one half of one percent per annum on such late payment from its due date to the date actually paid; provided, however, that

such late charge payable on the Loan shall not be in excess of the maximum interest rate permitted by law.

(c) In addition to the Loan Repayments payable under subsections (a) and (b) of this Section 3.03, the Borrower shall pay one-half of the Administrative Fee, if any, to the Trustee semiannually on each February 1 and August 1, commencing August 1, 2010, as further described in Exhibit B hereto.

SECTION 3.03A. Amounts on Deposit in Project Loan Account after Completion of Project Draws.

(a) If, on the date which is one hundred eighty (180) days following the final date for which a disbursement of Loan proceeds is scheduled to be made pursuant to Exhibit C hereto, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower must provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower (i) stating that the Borrower has not yet completed the Project, (ii) stating that the Borrower intends to complete the Project, (iii) setting forth the amount of remaining Loan Proceeds required to complete the Project, and (iv) providing a revised draw schedule, in a form similar to Exhibit C hereto and approved by the Department.

(b) If, on the date which is one hundred eighty (180) days following the final date for which a disbursement of Loan proceeds is scheduled to be made pursuant to a revised draw schedule certified to the Trust and the Department in accordance with Section 3.03A(a) hereof, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower must provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower (i) stating that the Borrower has not yet completed the Project, (ii) stating that the Borrower intends to complete the Project, (iii) setting forth the amount of remaining Loan Proceeds required to complete the Project, and (iv) providing a revised draw schedule, in a form similar to Exhibit C hereto and approved by the Department.

(c) If the Borrower fails to provide the certificate described in paragraphs (a) or (b) of this Section 3.03A, when due, or if such certificate states that the Borrower does not require all or any portion of the amount on deposit in the Project Loan Account to complete the Project, such amounts on deposit in the Project Loan Account which are not certified by an Authorized Officer of the Borrower as being required to complete the Project ("Excess Project Funds") shall be applied by the State as a prepayment of the Borrower's Loan Repayments, and shall be applied to the principal payments (including premium, if any) on the Loan in inverse order of their maturity.

SECTION 3.04. Unconditional Obligations. The obligation of the Borrower to make the Loan Repayments and all other payments required hereunder and the obligation to perform and observe the other duties, covenants, obligations and agreements on its part contained herein shall be absolute and unconditional, and shall not be abated, rebated, set-off, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever while any Loan Repayments remain unpaid, for any reason, regardless of any contingency, act of God, event or cause whatsoever, including (without limitation) any acts or circumstances that may constitute failure of consideration, eviction or

constructive eviction, the taking by eminent domain or destruction of or damage to the Project or Environmental Infrastructure System, commercial frustration of the purpose, any change in the laws of the United States of America or of the State or any political subdivision of either or in the rules or regulations of any governmental authority, any failure of the State to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Project or this Loan Agreement, or any rights of set-off, recoupment, abatement or counterclaim that the Borrower might otherwise have against the State, the Trustee or any other party or parties; provided, however, that payments hereunder shall not constitute a waiver of any such rights. The Borrower shall not be obligated to make any payments required to be made by any other Borrowers under separate Loan Agreements.

SECTION 3.05. Loan Agreement to Survive Loan. The Borrower acknowledges that its duties, covenants, obligations and agreements set forth in Sections 3.06(a) and (b) hereof shall survive the payment in full of the Loan.

SECTION 3.06. Disclaimer of Warranties and Indemnification.

(a) The Borrower acknowledges and agrees that: (i) the State does not make any warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for particular purpose or fitness for any use of the Environmental Infrastructure System or the Project or any portions thereof or any other warranty or representation with respect thereto; (ii) in no event shall the State or its agents be liable or responsible for any incidental, indirect, special or consequential damages in connection with or arising out of this Loan Agreement or the Project or the existence, furnishing, functioning or use of the Environmental Infrastructure System or the Project or any item or products or services provided for in this Loan Agreement; and (iii) to the fullest extent permitted by law, the Borrower shall indemnify and hold the State harmless against, and the Borrower shall pay any and all, liability, loss, cost, damage, claim, judgment or expense of any and all kinds or nature and however arising and imposed by law, which the State may sustain, be subject to or be caused to incur by reason of any claim, suit or action based upon personal injury, death or damage to property, whether real, personal or mixed, or upon or arising out of contracts entered into by the Borrower, the Borrower's ownership of the Environmental Infrastructure System or the Project, or the acquisition, construction or installation of the Project.

(b) It is mutually agreed by the Borrower and the State that the State and its commissioners, officers, agents, servants or employees shall not be liable for, and shall be indemnified and saved harmless by the Borrower in any event from, any action performed under this Loan Agreement and any claim or suit of whatsoever nature, except in the event of loss or damage resulting from their own negligence or willful misconduct.

(c) In connection with its obligation to provide the insurance required under Section 2.02(j) hereof: (i) the Borrower shall include, or cause to be included, the State and its employees and officers as additional "named insureds" on (A) any certificate of liability insurance procured by the Borrower (or other similar document evidencing the liability insurance coverage procured by the Borrower) and (B) any certificate of liability insurance procured by any contractor or subcontractor for the Project, and from the later of the date of the Loan Closing or the date of the initiation of construction of the Project until the date the Borrower receives the

written certificate of Project completion from the State, the Borrower shall maintain said liability insurance covering the State and said employees and officers in good standing; and (ii) the Borrower shall include the State as an additional “named insured” on any certificate of insurance providing against risk of direct physical loss, damage or destruction of the Environmental Infrastructure System, and during the Loan Term the Borrower shall maintain said insurance covering the State in good standing.

The Borrower shall provide the State with a copy of each of any such original, supplemental, amendatory or reissued certificates of insurance (or other similar documents evidencing the insurance coverage) required pursuant to this Section 3.06(c).

SECTION 3.07. Option to Prepay Loan Repayments. The Borrower may prepay the Loan Repayments, in whole or in part, upon not less than ninety (90) days’ prior written notice to the State; provided, however, that, with respect to any prepayment other than those required by Section 3.03A hereof, any such full or partial prepayment may only be made (i) if the Borrower is not then in arrears on its Trust Loan, (ii) if the Borrower is contemporaneously making a full or partial prepayment of the Trust Loan such that, after the prepayment of the Loan and the Trust Loan, the Trust gives its consent required under Section 3.07(iii) of the Trust Loan Agreement, and (iii) upon the prior written approval of the State. Prepayments shall be applied to the principal payments on the portion of the Loan to be prepaid in inverse order of their maturity.

SECTION 3.08. Priority of Loan and Trust Loan.

(a) The Borrower hereby agrees that, to the extent allowed by law, including, without limitation, the appropriations act of the New Jersey State Legislature authorizing the expenditure of Trust bond proceeds to finance a portion of the Costs of the Project, or the Borrower Bond Resolution, any loan repayments then due and payable on the Borrower’s Trust Loan, including, without limitation, any administrative fees and any late payment charges then due and payable under the Trust Loan Agreement, shall be satisfied by the Trustee before any Loan Repayments then due and payable hereunder on the Loan shall be satisfied by the Trustee. The Borrower agrees not to interfere with any such action by the Trustee.

(b) The Borrower hereby acknowledges that in the event the Borrower fails or is unable to pay promptly to the Trust in full any loan repayments on the Trust Loan, then any Loan Repayments paid by the Borrower on the Loan under this Loan Agreement and received by the Trustee during the time of any such loan repayment deficiency under the Trust Loan Agreement shall be applied by the Trustee *first* to satisfy such Trust Loan Agreement loan repayment deficiency as a credit against the obligations of the Borrower to make loan repayments of that portion of interest under the Trust Loan Agreement that is allocable to the interest payable on the Trust Bonds (as defined in the Trust Loan Agreement) and to make payments of that portion of interest under the bond or note issued by the Borrower to the Trust that is allocable to the interest payable on the Trust Bonds, *second*, to the extent available, to make loan repayments of principal under the Trust Loan Agreement and payments of principal on the bond or note issued by the Borrower to the Trust pursuant to the Trust Loan Agreement, *third*, to the extent available, to the payment of the administrative fee payable under the Trust Loan Agreement and to make payments of that portion of interest under the bond or note issued by the Borrower to the Trust

that is allocable to the administrative fee payable under the Trust Loan Agreement, *fourth*, to the extent available, to the payment of late charges payable under the Trust Loan Agreement and to make payments of that portion of interest under the bond issued by the Borrower to the Trust that is allocable to the late charges payable under the Trust Loan Agreement, and *finally*, to the extent available, to make Loan Repayments on the Loan.

(c) The Borrower hereby further acknowledges that any Loan Repayments paid by the Borrower on the Loan under this Loan Agreement shall be applied according to the provisions of the Master Program Trust Agreement.

SECTION 3.09. Approval of the New Jersey State Treasurer. The Borrower and the State hereby acknowledge that prior to or simultaneously with the Loan Closing the New Jersey State Treasurer, in satisfaction of the requirements of Section 9a of the Act, issued the “Certificate of the New Jersey State Treasurer Regarding the Approval of the Trust Loan and the Fund Loan” (the “Treasurer’s Certificate”). Pursuant to the terms of the Treasurer’s Certificate, the New Jersey State Treasurer approved the Loan and the terms and conditions thereof as established by the provisions of this Loan Agreement.

ARTICLE IV

ASSIGNMENT OF LOAN AGREEMENT AND BORROWER BOND

SECTION 4.01. Assignment and Transfer by State. The Borrower hereby approves and consents to any assignment or transfer of this Loan Agreement and the Borrower Bond that the State deems to be necessary in connection with the environmental infrastructure loan program of the State under the Regulations.

SECTION 4.02. Assignment by Borrower. Neither this Loan Agreement nor the Borrower Bond may be assigned by the Borrower for any reason, unless the following conditions shall be satisfied: (i) the State shall have approved said assignment in writing; (ii) the assignee shall have expressly assumed in writing the full and faithful observance and performance of the Borrower's duties, covenants, obligations and agreements under this Loan Agreement and, to the extent permitted under applicable law, the Borrower Bond; and (iii) immediately after such assignment, the assignee shall not be in default in the observance or performance of any duties, covenants, obligations or agreements of the Borrower under this Loan Agreement or the Borrower Bond.

ARTICLE V

EVENTS OF DEFAULT AND REMEDIES

SECTION 5.01. Events of Default. If any of the following events occur, it is hereby defined as and declared to be and to constitute an “Event of Default”:

(a) failure by the Borrower to pay, or cause to be paid, any Loan Repayment required to be paid hereunder when due, which failure shall continue for a period of fifteen (15) days;

(b) failure by the Borrower to make, or cause to be made, any required payments of principal, redemption premium, if any, and interest on any bonds, notes or other obligations of the Borrower issued under the Borrower Bond Resolution (other than the Loan and the Borrower Bond) or otherwise secured by all or a portion of the property pledged under the Borrower Bond Resolution, after giving effect to the applicable grace period;

(c) failure by the Borrower to pay, or cause to be paid, any late charges incurred hereunder or any portion thereof when due or to observe and perform any duty, covenant, obligation or agreement on its part to be observed or performed under this Loan Agreement, other than as referred to in subsection (a) of this Section 5.01 or other than the obligations of the Borrower contained in Section 2.02(d)(ii) hereof and in Exhibit F hereto, which failure shall continue for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Borrower by the State, unless the State shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in such notice is correctable but cannot be corrected within the applicable period, the State may not unreasonably withhold its consent to an extension of such time up to 120 days from the delivery of the written notice referred to above if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the Event of Default is corrected;

(d) any representation made by or on behalf of the Borrower contained in this Loan Agreement, or in any instrument furnished in compliance with or with reference to this Loan Agreement or the Loan, is false or misleading in any material respect;

(e) a petition is filed by or against the Borrower under any federal or State bankruptcy or insolvency law or other similar law in effect on the date of this Loan Agreement or thereafter enacted, unless in the case of any such petition filed against the Borrower such petition shall be dismissed within thirty (30) days after such filing and such dismissal shall be final and not subject to appeal; or the Borrower shall become insolvent or bankrupt or shall make an assignment for the benefit of its creditors; or a custodian (including, without limitation, a receiver, liquidator or trustee of the Borrower or any of its property shall be appointed by court order or take possession of the Borrower or its property or assets if such order remains in effect or such possession continues for more than thirty (30) days;

(f) the Borrower shall generally fail to pay its debts as such debts become due; and

(g) failure of the Borrower to observe or perform such additional duties, covenants, obligations, agreements or conditions as are required by the State and specified in Exhibit F attached hereto and made a part hereof.

SECTION 5.02. Notice of Default. The Borrower shall give the State prompt telephonic notice of the occurrence of any Event of Default referred to in Section 5.01(e) or (f) hereof and of the occurrence of any other event or condition that constitutes an Event of Default at such time as any senior administrative or financial officer of the Borrower becomes aware of the existence thereof.

SECTION 5.03. Remedies on Default. Whenever an Event of Default referred to in Section 5.01 hereof shall have occurred and be continuing, the State shall have the right to take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due hereunder or to enforce the observance and performance of any duty, covenant, obligation or agreement of the Borrower hereunder.

In addition, if an Event of Default referred to in Section 5.01(a) hereof shall have occurred and be continuing, the State shall, to the extent allowed by applicable law, have the right to declare all Loan Repayments and all other amounts due hereunder (including, without limitation, payments under the Borrower Bond) to be immediately due and payable, and upon notice to the Borrower the same shall become due and payable without further notice or demand.

SECTION 5.04. Attorneys' Fees and Other Expenses. The Borrower shall on demand pay to the State the reasonable fees and expenses of attorneys and other reasonable expenses (including, without limitation, the reasonably allocated costs of in-house counsel and legal staff) incurred by the State in the collection of Loan Repayments or any other sum due hereunder or in the enforcement of the observation or performance of any other duties, covenants, obligations or agreements of the Borrower upon an Event of Default.

SECTION 5.05. Application of Moneys. Any moneys collected by the State pursuant to Section 5.03 hereof shall be applied (a) *first* to pay any attorneys' fees or other fees and expenses owed by the Borrower pursuant to Section 5.04 hereof, (b) *second*, to the extent available, to pay principal due and payable on the Loan (to the extent permitted by Section 3.08(b) hereof), (c) *third*, to the extent available, to pay any other amounts due and payable hereunder, and (d) *fourth*, to the extent available, to pay principal on the Loan and other amounts payable hereunder as such amounts become due and payable.

SECTION 5.06. No Remedy Exclusive; Waiver; Notice. No remedy herein conferred upon or reserved to the State is intended to be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right, remedy or power accruing upon any Event of Default shall impair any such right, remedy or power or shall be construed to be a waiver thereof, but any such right, remedy or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the State to exercise any remedy reserved to it in this Article V, it shall not be necessary to give any notice other than such notice as may be required in this Article V.

SECTION 5.07. Retention of State's Rights. Notwithstanding any assignment or transfer of this Loan Agreement pursuant to the provisions hereof, or anything else to the contrary contained herein, the State shall have the right upon the occurrence of an Event of Default to take any action, including (without limitation) bringing an action against the Borrower at law or in equity, as the State may, in its discretion, deem necessary to enforce the obligations of the Borrower to the State pursuant to Section 5.03 hereof.

ARTICLE VI

MISCELLANEOUS

SECTION 6.01. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when hand delivered or mailed by registered or certified mail, postage prepaid, to the Borrower at the address specified in Exhibit A-1 attached hereto and made a part hereof and to the State and the Trustee at the following addresses:

(a) State:

New Jersey Department of Environmental Protection
Municipal Finance and Construction Element
401 East State Street – 3rd Floor
Trenton, New Jersey 08625-0425
Attention: Assistant Director

New Jersey Department of the Treasury
Office of Public Finance
State Street Square – 5th Floor
Trenton, New Jersey 08625-0002
Attention: Director

(b) Trustee:

U.S. Bank National Association
21 South Street, 3rd Floor
Morristown, New Jersey 07960
Attention: Corporate Trust Department

Any of the foregoing parties may designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent by notice in writing given to the others.

SECTION 6.02. Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the State and the Borrower and their respective successors and assigns.

SECTION 6.03. Severability. In the event any provision of this Loan Agreement shall be held illegal, invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate, render unenforceable or otherwise affect any other provision hereof.

SECTION 6.04. Amendments, Supplements and Modifications. This Loan Agreement may not be amended, supplemented or modified without the prior written consent of the State and the Borrower.

SECTION 6.05. Execution in Counterparts. This Loan Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 6.06. Applicable Law and Regulations. This Loan Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey, including the Regulations, which Regulations are, by this reference thereto, incorporated herein as part of this Loan Agreement.

SECTION 6.07. Consents and Approvals. Whenever the written consent or approval of the State shall be required under the provisions of this Loan Agreement, such consent or approval may only be given by the State.

SECTION 6.08. Captions. The captions or headings in this Loan Agreement are for convenience only and shall not in any way define, limit or describe the scope or intent of any provisions or sections of this Loan Agreement.

SECTION 6.09. Further Assurances. The Borrower shall, at the request of the State, authorize, execute, attest, acknowledge and deliver such further resolutions, conveyances, transfers, assurances, financing statements and other instruments as may be necessary or desirable for better assuring, conveying, granting, assigning and confirming the rights, security interests and agreements granted or intended to be granted by this Loan Agreement and the Borrower Bond.

IN WITNESS WHEREOF, the State and the Borrower have caused this Loan Agreement to be executed, sealed and delivered as of the date first above written.

**THE STATE OF NEW JERSEY
ACTING BY AND THROUGH THE
NEW JERSEY DEPARTMENT OF
ENVIRONMENTAL PROTECTION**

[SEAL]

By: /s/ Bob Martin
Bob Martin
Commissioner
Department of Environmental
Protection

ATTEST:

/s/ Stanley V. Cach, Jr. P.E., P.P .
Stanley V. Cach, Jr. P.E., P.P.
Assistant Director
Municipal Finance and Construction Element,
Department of Environmental Protection

/s/ Eugene J. Chebra, P.E.
Eugene J. Chebra, P.E.
Acting Assistant Director
Municipal Finance and Construction Element,
Department of Environmental Protection

MIDDLESEX WATER COMPANY

[SEAL]

By: /s/ A. Bruce O'Connor
A. Bruce O'Connor
Vice President & CFO

ATTEST:

/s/ Kenneth J. Quinn
Kenneth J. Quinn, Secretary

[signature page]

SCHEDULE A

Certain Additional Loan Agreement Provisions

In addition to the terms defined in subsection (a) of Section 1.01 of this Loan Agreement, certain additional capitalized terms used in this Loan Agreement shall, unless the context clearly requires otherwise, have the meanings ascribed to such additional capitalized terms in this Schedule A.

Additional Definitions:

“Borrower” means Middlesex Water Company, a corporation duly created and validly existing under the laws of the State of New Jersey.

“Borrower Bond Resolution” means the indenture of the Borrower entitled “Indenture of Mortgage” dated as of April 1, 1927, as amended and supplemented from time to time, in particular by a supplemental indenture detailing the terms of the Borrower Bond, dated as of December 1, 2010 and entitled “Thirty-EIGHTH Supplemental Indenture”, pursuant to which the Borrower Bond has been issued.

“Principal Payment Dates” means February 1 and August 1 of each year, commencing on August 1, 2011.

SECTION 2.02(e):

Disposition of Environmental Infrastructure System. The Borrower shall not permit the disposition of all or substantially all of its Environmental Infrastructure System, directly or indirectly, including, without limitation, by means of sale, lease, abandonment, sale of stock, statutory merger or otherwise (collectively, a "Disposition"), except on ninety (90) days' prior written notice to the State, and, in any event, shall not permit a Disposition unless the Borrower shall, in accordance with Section 4.02 hereof, assign this Loan Agreement and the Borrower Bond and its rights and interests hereunder and thereunder to the purchaser or lessee of the Environmental Infrastructure System, and such purchaser or lessee shall assume all duties, covenants, obligations and agreements of the Borrower under this Loan Agreement and the Borrower Bond.

EXHIBIT A-1

Description of Project and Environmental Infrastructure System

A-1

EXHIBIT A-1

1) Name and Address of Local Unit:

Middlesex Water Company
1500 Ronson Road
Iselin, New Jersey 08830-0452

Attention: Richard M. Risoldi. Vice President - Operations

2) Description of the Project:

The proposed project will involve cleaning/relining and spot replacement of water mains, hydrants, service lines, and valves. Approximately forty five thousand feet of 4, 6, 8, 10, 12, 16 and 20-inch diameter water mains will be relined. The project will occur in the City of South Amboy. Additional work may also be performed on an as needed basis in the Townships of Edison, and Woodbridge, and the Boroughs of Metuchen, South Plainfield and Carteret.

3) Description of the Water Treatment System:

The Middlesex Water Company is an investor-owned water utility that provides water service to retail customers primarily in eastern Middlesex County. Water services are now furnished to approximately 58,000 retail customers located in an area of approximately 55 square miles of New Jersey in Woodbridge Township, the Boroughs of Metuchen and Carteret, portions of Edison Township and the Borough of South Plainfield and the City of South Amboy in Middlesex County, and a portion of the Township of Clark in Union County.

The Middlesex Water Company obtains water from both surface and groundwater sources; however, the principal source of supply is the Delaware and Raritan Canal, owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority.

EXHIBIT A-2

Description of Loan

See Schedule to Specimen Borrower Bond (Exhibit D hereto)

EXHIBIT B

Basis for Determination of Allowable Project Costs

B-1

EXHIBIT B

Basis for the Determination of Allowable Costs

The determination of the costs allowable for assistance from the New Jersey Environmental Infrastructure Financing Program is presented below:

Cost Classification	Application Amount	Allowable Amount
1. Administrative Expenses	\$ 99,000	\$ 97,900
2. Other Costs	\$...0	\$...0
3. Engineering Fees	\$ 160,000	\$ 160,000
4. Building Costs	\$ 3,300,000	\$ 3,263,330
5. Contingencies	\$ 165,000	\$ 138,770
6. Allowance for Planning and Design	\$ 276,000	\$ 276,000
7. Sub-Total	\$ 4,000,000	\$ 3,936,000
8. DEP Fee (Financed Portion (50%))		\$ 39,360
9. Total Project Costs	\$ 4,000,000	\$ 3,975,360
A. Fund Loan (50% of Sub-Total)		\$ 1,968,000
B. Trust Loan (50% of Sub-Total)		\$ 1,968,000
C. DEP Fee (Financed Portion (50%))		\$ 39,360

As a result of the review by the New Jersey Department of Environmental Protection, various line items may have been revised resulting in a change of the allowable costs for this project. The basis for the determination of the allowable costs is as follows:

1. Administrative Expenses:

The total amount requested for this line item on the application was \$99,000. The allowable administrative expense is authorized to be 3% of the total allowable building costs (Line Item No. 4). Therefore, the amount for the administrative line item is $\$3,263,330 \times 0.03 = \$97,900$.

Allowable Administrative Expenses are \$97,900.

2. Other Costs:

The amount requested for this line item on the application was \$0. Therefore, the total allowable amount for this line item is \$ 0.

Allowable Other Costs are \$0.

3. Engineering Fees:

The amount requested for this line item on the application was \$160,000.

Allowable Engineering Fees are \$160,000.

4. Building Costs:

The amount requested for this line item on the application was \$3,300,000. Due to the limit of local authorization amount, the Sub-Total line item is limited to \$3,936,000. This amount is therefore reduced to \$3,263,330.

Allowable Building Costs are \$3,263,330.

5. Contingencies:

The amount requested for this line item on the application was \$165,000. The allowable amount is authorized to be 5% of the allowable building cost. Therefore, the allowable amount for this line item is $3,263,330 \times 0.05 = \$163,167$. However, this line item is reduced to \$138,770 due to the limit of local authorization amount.

Allowable Contingencies are \$138,770.

6. Allowance for Planning and Design:

The amount requested for this line item on the application was \$276,000.. The allowable amount for this line item based on the allowable building costs and the planning and design allowance as per N.J.A.C. 7:22-5.12 is as follows:

$$\$250,000 + 0.12(3,263,330 - 1,000,000) = \$521,600$$

At the request of the applicant the amount is reduced to \$276,000.

Allowable Planning and Design Allowance is \$276,000.

7. Sub-Total:

The total amount applied for was \$4,000,000. The subtotal line item amount is \$3,936,000.

8. DEP Fee:

This item represents the DEP Loan Surcharge or Loan Origination Fee imposed by DEP as a portion of the cost of the project of the borrower. This DEP Loan Surcharge or Loan Origination Fee is a portion of the cost of the project that has been incurred for engineering and environmental services provided by DEP for the borrower in connection with, and as a condition precedent to, the inclusion of the project of the borrower in the 2010 Financing Program of the Trust, 50% of which will be financed for the Borrower as part of the Trust Loan made by the Trust to the Borrower from the proceeds of the Trust bonds sold as part of the 2010 Financing Program, 50% of which will be imposed as an annual administrative fee upon the Borrower by DEP (pursuant to the terms of the Fund Loan agreement and invoices evidencing such obligation to be submitted to the Borrower by or on behalf of DEP), and paid semi-annually by the Borrower to DEP in eight (8) equal installments commencing September 1, 2011 (regardless of the date of commencement of Fund Loan principal amortization). Upon the issuance of the Trust bonds, the Trust shall direct the Trustee for the Trust bonds to transfer to DEP from the Project Fund that portion (50%) of the DEP Loan Surcharge or Loan Origination Fee financed thereby and allocable to the Borrower. The DEP's authority to assess a Loan Surcharge or Loan Origination Fee was established pursuant to P.L. 2002, c.34 approved on July 1, 2002.

$$\text{DEP Fee} = \$3,936,000 \times 2\% = \underline{\$78,720}.$$

$\$78,720 \times .50 = \$39,360$ (financed through the Trust Loan and paid to DEP upon closing of the Trust Loan)

$\$78,720 \times .50 = \$39,360$ (paid as an annual administrative fee to DEP in 8 equal semiannual installments, commencing September 1, 2011).

9. Total Project Costs:

The total project costs are (Sub-Total + DEP Fee) \$3,975,360.

I. Disbursement to Borrower is \$3,936,000.

Fund Share is \$1,968,000 (50%)

Trust Share is \$1,968,000 (50%)

II. Disbursement to DEP is \$39,360.

EXHIBIT C

Estimated Disbursement Schedule

C-1

EXHIBIT C

1. Disbursement Schedule

The following is a schedule of the estimated disbursements for this loan. Disbursements to the Borrower for any given month shall not exceed the amounts indicated below plus any undisbursed from the previous months.

Year	Month	Fund Share (50%) Borrower Disbursement (\$)	Trust Share (50%) Borrower Disbursement (\$)	Trust Share DEP Disbursement (\$)	Total
2010	December			*39,360	*39,360
2011	January				
	February				
	March	75,000	75,000		\$ 150,000
	April	250,000	250,000		\$ 500,000
	May	325,000	325,000		\$ 650,000
	June	325,000	325,000		\$ 650,000
	July	350,000	350,000		\$ 700,000
	August	350,000	350,000		\$ 700,000
	September	200,000	200,000		\$ 400,000
	October	93,000	93,000		\$ 186,000
Total		\$ 1,968,000	\$ 1,968,000	\$ 39,360	\$ 3,975,360

* This represents that portion (50%) of the DEP Loan Surcharge or Loan Origination Fee that has been financed for the Borrower through the Trust Loan. No action is required on the part of the Borrower. The Trust will make a single transfer to DEP, through the Trust's Trustee, on behalf of each Borrower in 2010 Financing Program for purposes of implementing this disbursement.

2. Project Schedule

The Borrower shall expeditiously initiate and complete the project in accordance with the project schedule which was submitted as part of the loan application repeated below. Failure to promptly initiate and complete the Project may result in the imposition of sanctions under N.J.A.C. 7:22-3.40 through 3.44 and N.J.A.C. 7:22-4.40 through 4.44. In addition, failure to promptly award all subagreement(s) for building the Project within 12 months of the date of this loan may result in a limitation on allowable costs as provided by N.J.A.C. 7:22-5.4 (d) 4. This limitation provides that costs incurred under contracts awarded after 12 months from the date of this loan are unallowable unless a specific extension has been granted by the Department, in the case of a Fund Loan, and the Trust, in the case of a Trust Loan.

<u>EVENT</u>	<u>DATE</u>
<u>Advertisement:</u> Water Mains	October 10, 2010
<u>Bid Receipt:</u> Water Mains	January 11, 2011
<u>Award:</u> Water Mains	February 11, 2011
<u>Issuance of Notice to Proceed:</u> Water Mains	March 11, 2011
<u>Completion of Construction:</u> Water Mains	October 11, 2011
<u>Initiation of Operation:</u> Water Mains	October 11, 2011
<u>Project Performance Certification:</u> Water Mains	October 11, 2012

EXHIBIT D

Specimen Borrower Bond

D-1

EXHIBIT E

Opinions of Borrower's Bond Counsel and General Counsel

EXHIBIT F

Additional Covenants and Requirements

None.

EXHIBIT G

**General Administrative Requirements for the
State Environmental Infrastructure Financing Program**

INSERT NJDEP Exhibit G

Middlesex Water Company

Subsidiaries

	<u>Jurisdiction of Organization</u>
Tidewater Utilities, Inc.	Delaware
Tidewater Environmental Services, Inc.	Delaware
Pinelands Water Company	New Jersey
Pinelands Wastewater Company	New Jersey
Utility Service Affiliates (Perth Amboy) Inc.	New Jersey
Utility Service Affiliates, Inc.	New Jersey
Twin Lakes Utilities, Inc.	Pennsylvania

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-3 No. 333-160757 and No. 333-166425 and Form S-8 No. 333-156269 of Middlesex Water Company of our reports dated March 9, 2011 relating to the consolidated financial statements and the effectiveness of Middlesex Water Company's internal control over financial reporting, which appear in this Form 10-K.

/s/ParenteBeard LLC

Reading, Pennsylvania
March 9, 2011

**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 annual report on Form 10-K 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 At 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: March 9, 2011

**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 annual report on Form 10-K 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 At 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: March 9, 2011

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: March 9, 2011

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: March 9, 2011

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.
