MIDDLESEX WATER CO
Form 10-Q
May 08, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

OR

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

For the transition period from _________________ to______________________

Commission File Number 0-422

MIDDLESEX WATER COMPANY
(Exact name of registrant as specified in its charter)

New Jersey	22-1114430
(State of incorporation)	(IRS employer identification no.)

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

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

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

Yes |X| No |_|

Indicate by check mark whether the registrant is large accelerated file, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer |_| Accelerated filer |X| Non-accelerated filer |_|

The number of shares outstanding of each of the registrant's classes of common stock, as of May 1, 2006: Common Stock, No Par Value: 11,606,699 shares outstanding.

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MIDDLESEX WATER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31, 2006	2005
Operating Revenues	$ 18,230,146	$ 16,742,903
Operating Expenses:		
Operations	9,646,131	9,041,996
Maintenance	738,984	898,685

Depreciation	1,668,393	1,548,048
Other Taxes	2,203,453	2,083,134
Total Operating Expenses	14,256,961	13,571,863
Operating Income	3,973,185	3,171,040
Other Income:		
Allowance for Funds Used During Construction	112,636	210,450
Other Income	57,938	55,219
Other Expense	(1,739)	(8,145)
Total Other Income, net	168,835	257,524
Income before Interest and Income Taxes	4,142,020	3,428,564
Interest Charges	1,514,998	1,382,092
Income before Income Taxes	2,627,022	2,046,472
Income Taxes	814,658	666,770
Net Income	1,812,364	1,379,702
Preferred Stock Dividend Requirements	61,947	63,697
Earnings Applicable to Common Stock	$ 1,750,417	$ 1,316,005
Earnings per share of Common Stock:		
Basic	$ 0.15	$ 0.12
Diluted	$ 0.15	$ 0.12
Average Number of Common Shares Outstanding :		
Basic	11,593,624	11,367,475
Diluted	11,924,764	11,710,615
Cash Dividends Paid per Common Share	$ 0.1700	$ 0.1675

See Notes to Condensed Consolidated Financial Statements.

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MIDDLESEX WATER COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2006	Dec
ASSETS		

UTILITY PLANT:	Water Production	$ 91,692,824	$ 9
	Transmission and Distribution	220,761,183	21
	General	23,547,020	2
	Construction Work in Progress	7,304,562	
	TOTAL	343,305,589	33
	Less Accumulated Depreciation	56,156,803	5
	UTILITY PLANT - NET	287,148,786	28
CURRENT ASSETS:	Cash and Cash Equivalents	3,298,887	
	Accounts Receivable, net	6,569,041	
	Unbilled Revenues	3,864,076	
	Materials and Supplies (at average cost)	1,369,592	
	Prepayments	625,289	
	TOTAL CURRENT ASSETS	15,726,885	1
DEFERRED CHARGES AND OTHER ASSETS:	Unamortized Debt Expense	3,119,933	
	Preliminary Survey and Investigation Charges	2,349,116	
	Regulatory Assets	7,187,205	
	Restricted Cash	5,690,494	
	Non-utility Assets - Net	5,933,186	
	Other	616,343	
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	24,896,277	2
	TOTAL ASSETS	$ 327,771,948	$ 32

CAPITALIZATION AND LIABILITIES

CAPITALIZATION:	Common Stock, No Par Value	$ 76,567,020	$ 7
	Retained Earnings	23,418,420	2
	Accumulated Other Comprehensive Loss, net of tax	(206,702)	
	TOTAL COMMON EQUITY	99,778,738	9
	Preferred Stock	3,958,062	
	Long-term Debt	127,765,749	12
	TOTAL CAPITALIZATION	231,502,549	23
CURRENT LIABILITIES:	Current Portion of Long-term Debt	1,997,027	
	Notes Payable	7,200,000	
	Accounts Payable	4,099,816	
	Accrued Taxes	8,881,910	
	Accrued Interest	890,340	
	Unearned Revenues and Advanced Service Fees	506,594	
	Other	730,297	
	TOTAL CURRENT LIABILITIES	24,305,984	2

COMMITMENTS AND CONTINGENT LIABILITIES (Note 6)

DEFERRED CREDITS	Customer Advances for Construction	16,881,788	1
AND OTHER LIABILITIES:	Accumulated Deferred Investment Tax Credits	1,598,295	
	Accumulated Deferred Income Taxes	14,120,072	1
	Employee Benefit Plans	6,919,550	
	Regulatory Liability - Cost of Utility Plant Removal	5,797,460	
	Other	778,106	
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	46,095,271	4
CONTRIBUTIONS IN AID OF CONSTRUCTION		25,868,144	2
	TOTAL CAPITALIZATION AND LIABILITIES	$ 327,771,948	$ 32

See Notes to Condensed Consolidated Financial Statements.

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MIDDLESEX WATER COMPANY
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Three Months Ended Marc	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 1,812,364	$ 1,379,
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,865,274	1,720,
Provision for Deferred Income Taxes and ITC	(43,988)	(25,
Allowance for Funds Used During Construction	(112,636)	(210,
Changes in Assets and Liabilities:		
Accounts Receivable	1,505,888	235,
Unbilled Revenues	(126,449)	(22,
Materials & Supplies	(109,657)	(94,
Prepayments	301,965	232,
Other Assets	(229,371)	(28,
Accounts Payable	(1,938,244)	(1,686,
Accrued Taxes	2,415,265	1,915,
Accrued Interest	(978,622)	(771,
Employee Benefit Plans	268,826	410,
Unearned Revenue & Advanced Service Fees	32,967	8,
Other Liabilities	7,100	(95,
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,670,682	2,967,
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility Plant Expenditures*	(4,549,091)	(4,192,
Cash Surrender Value & Other Investments	(104,304)	(85,
Restricted Cash	97,869	2,541,
Preliminary Survey & Investigation Charges	(574,299)	(261,

NET CASH USED IN INVESTING ACTIVITIES	(5,129,825)	(1,998,
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of Long-term Debt	(342,785)	(210,
Proceeds from Issuance of Long-term Debt	--	335,
Net Short-term Bank Borrowings (Repayments)	3,200,000	(1,500,
Deferred Debt Issuance Expenses	--	(7,
Restricted Cash	(5,658)	
Proceeds from Issuance of Common Stock	406,071	389,
Payment of Common Dividends	(1,970,298)	(1,903,
Payment of Preferred Dividends	(61,947)	(63,
Construction Advances and Contributions-Net	(451,115)	(304,
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	774,268	(3,264,
NET CHANGES IN CASH AND CASH EQUIVALENTS	315,125	(2,295,
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,983,762	4,034,
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3,298,887	$ 1,739,

*Excludes Allowance for Funds Used During Construction

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:		
Utility Plant received as Construction Advances and Contributions	$ 1,035,405	$ 332,
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for:		
Interest	$ 2,561,563	$ 2,111,
Interest Capitalized	$ (112,636)	$ (210,
Income Taxes	$ 100,000	$ 300,

See Notes to Condensed Consolidated Financial Statements.

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

	March 31, 2006	December 2005
Common Stock, No Par Value		
Shares Authorized - 20,000,000		
Shares Outstanding - 2006 - 11,603,238	$ 76,567,020	$ 76,160
2005 - 11,584,499		
Retained Earnings	23,418,420	23,638
Accumulated Other Comprehensive Loss, net of tax	(206,702)	(206
TOTAL COMMON EQUITY	$ 99,778,738	$ 99,592

Cumulative Preference Stock, No Par Value:		
Shares Authorized - 100,000		
Shares Outstanding - None		
Cumulative Preferred Stock, No Par Value		
Shares Authorized - 139,497		
Convertible:		
Shares Outstanding, $7.00 Series - 13,881	$ 1,457,505	$ 1,457
Shares Outstanding, $8.00 Series - 12,000	1,398,857	1,398
Nonredeemable:		
Shares Outstanding, $7.00 Series - 1,017	101,700	101
Shares Outstanding, $4.75 Series - 10,000	1,000,000	1,000
TOTAL PREFERRED STOCK	$ 3,958,062	$ 3,958
Long-term Debt		
8.05%, Amortizing Secured Note, due December 20, 2021	$ 2,962,237	$ 2,983
6.25%, Amortizing Secured Note, due May 22, 2028	9,310,000	9,415
6.44%, Amortizing Secured Note, due August 25, 2030	6,836,667	6,906
6.46%, Amortizing Secured Note, due September 19, 2031	7,000,000	7,000
4.22%, State Revolving Trust Note, due December 31, 2022	754,164	754
3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025	3,018,254	3,018
3.49%, State Revolving Trust Note, due January 25, 2027	278,144	278
4.00% to 5.00%, State Revolving Trust Bond, due September 1, 2021	760,000	760
0.00%, State Revolving Fund Bond, due September 1, 2021	604,038	614
First Mortgage Bonds:		
5.20%, Series S, due October 1, 2022	12,000,000	12,000
5.25%, Series T, due October 1, 2023	6,500,000	6,500
6.40%, Series U, due February 1, 2009	15,000,000	15,000
5.25%, Series V, due February 1, 2029	10,000,000	10,000
5.35%, Series W, due February 1, 2038	23,000,000	23,000
0.00%, Series X, due September 1, 2018	688,524	700
4.25% to 4.63%, Series Y, due September 1, 2018	870,000	870
0.00%, Series Z, due September 1, 2019	1,539,390	1,567
5.25% to 5.75%, Series AA, due September 1, 2019	1,990,000	1,990
0.00%, Series BB, due September 1, 2021	1,894,335	1,926
4.00% to 5.00%, Series CC, due September 1, 2021	2,185,000	2,185
5.10%, Series DD, due January 1, 2032	6,000,000	6,000
0.00%, Series EE, due September 1, 2024	7,652,023	7,715
3.00% to 5.50%, Series FF, due September 1, 2024	8,920,000	8,920
SUBTOTAL LONG-TERM DEBT	129,762,776	130,105
Less: Current Portion of Long-term Debt	(1,997,027)	(1,930
TOTAL LONG-TERM DEBT	$ 127,765,749	$ 128,174

See Notes to Condensed Consolidated Financial Statements.

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MIDDLESEX WATER COMPANY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Organization - Middlesex Water Company (Middlesex or the Company) is the parent company and sole shareholder of Tidewater Utilities, Inc. (Tidewater), Tidewater

Environmental Services, Inc. (TESI), Pinelands Water Company (Pinelands Water) and Pinelands Wastewater Company (Pinelands Wastewater) (collectively, Pinelands), Utility Service Affiliates, Inc. (USA), and Utility Service Affiliates (Perth Amboy) Inc. (USA-PA). On January 1, 2006, the Company's Bayview Water Company subsidiary was merged into Middlesex. Southern Shores Water Company, LLC (Southern Shores) and White Marsh Environmental Systems, Inc. (White Marsh) are wholly-owned subsidiaries of Tidewater. The financial statements for Middlesex and its wholly-owned subsidiaries (the Company) are reported on a consolidated basis. All significant intercompany accounts and transactions have been eliminated.

The consolidated notes within the 2005 Form 10-K are applicable to these financial statements and, in the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (including normal recurring accruals) to present fairly the financial position as of March 31, 2006 and the results of operations for the three month periods ended March 31, 2006 and 2005, and cash flows for the three month periods ended March 31, 2006 and 2005. Information included in the Balance Sheet as of December 31, 2005, has been derived from the Company's audited financial statements for the year ended December 31, 2005.

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

Recent Accounting Pronouncements - In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No.154, "Accounting Changes and Error Corrections" (SFAS 154), which requires retrospective application to prior periods' financial statements of voluntary changes in accounting principles unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 makes a distinction between "retrospective application" of an accounting principle and the "restatement" of financial statements to reflect the correction of an error. SFAS 154 replaces Accounting Principles Bulletin (APB) No. 20, "Accounting Changes" (APB 20), and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. APB 20 previously required that most voluntary changes in accounting principles be recognized by including the cumulative effect of changing to the new accounting principle in the net income of the period of the change. SFAS 154 requires that a change in depreciation, amortization or depletion method for long-lived non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle, whereas APB 20 had required accounting for such a change as a change in accounting principle. SFAS 154 carries forward the guidance in APB 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate as well as the requirement for justifying a change in accounting principle on the basis of a preference. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 (January 1, 2006 for the Company).

In December 2004, the FASB issued SFAS No.123(R), "Share-Based Payment" (SFAS 123(R)), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS 123(R) requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. The Statement also establishes fair

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value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by employee share ownership plans. This statement was originally effective for quarters beginning after June 15, 2005, however on April 14, 2005, the Securities and Exchange Commission adopted a rule which makes the provisions of SFAS 123(R) effective for the first annual reporting period beginning after June 15, 2005 (January 1, 2006 for the Company). The Company previously recognized compensation expense at fair value for stock-based payment awards in accordance with SFAS 123 and the adoption of this standard did not have a material impact on the Company's financial position, results of operations, or cash flows.

In November 2005, the FASB issued FASB Staff Position (FSP) FAS115-1/124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," which addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of another-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends FASB Statements No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," and APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." The FSP was effective for accounting for reporting periods beginning after December 15, 2005 (January 1, 2006 for the Company). The adoption of this FSP had no impact on the Company's financial position, results of operations, or cash flows.

Rate Matters - On April 28, 2006, Tidewater filed for a $5.5 million, or 38.6%, base rate increase with the Delaware Public Service Commission (PSC). The requested increase is intended to recover increased costs of operations, maintenance and taxes, as well as capital investment of approximately $23.8 million since March 2005. We cannot predict whether the PSC will ultimately approve, deny, or reduce the amount of our request. Concurrent with the rate increase filing, Tidewater also submitted a request for a 15% interim rate increase subject to refund. Under PSC regulations, interim rates may go into effect 60 days after the initial request is submitted.

Effective April 13, 2006, Pinelands Water and Pinelands Wastewater received approval from the New Jersey Board of Public Utilities (BPU) for base rate increases of 7.02% and 0.98%, respectively. This increase represents a total base rate increase of approximately $0.1 million for Pinelands to help offset the increased costs associated with capital improvements, and the operation and maintenance of their systems.

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2006. 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%. The rates are set to expire on December 31, 2006, and the Company is currently negotiating a new agreement.

Stock Based Compensation - The Company recognizes compensation expense at fair value for its restricted stock awards in accordance with SFAS 123(R). As discussed in Note 1, SFAS 123(R) the adoption of this standard did not have a material impact on the Company's financial position, results of operations, or cash flows.

The Company maintains a Restricted Stock Plan, under which 56,067 shares of the Company's common stock are held in escrow by the Company as of March 31, 2006 for key employees. Such stock is subject to an agreement requiring forfeiture by the employee in the event of termination of employment within five years of the award other than as a result of retirement, death, disability or change in control. The maximum number of shares authorized for grant under this plan is 240,000 shares. There were no grants, vesting or forfeitures of restricted stock during the three months ended March 31, 2006.

Compensation expense is determined by the market value of the stock on the date of the award and is being amortized over a five-year period. Compensation expense for the three months ended March 31, 2006 and 2005 was $0.1 million. Total unearned compensation related to restricted stock was $0.6 million at March 31, 2006.

Note 2 - Capitalization

Common Stock -During the three months ended March 31, 2006, there were 18,739 common shares (approximately $0.4 million) issued under the Company's Dividend Reinvestment and Common Stock Purchase Plan.

Long-term Debt - Middlesex filed an application with the BPU seeking approval to issue up to $4.0 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust under the New Jersey State Revolving Fund (SRF) program. If approved by the BPU, the Company expects to close on the bonds in November 2006.

On April 25, 2006, Tidewater received approval from the PSC to borrow up to $1.0 million under the Delaware SRF program. The Delaware SRF program allows, but does not obligate, Tidewater to draw against a General Obligation Note for a specific project over a two-year period ending in April 2008. The interest rate is set on the loan closing date and is based on 62.5% of the interest rate for a 10+ year high quality corporate bond. The Company expects to close on the loan during May 2006.

Note 3 - Earnings Per Share

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

	(In Thousands Except for per Share Amounts) Three Months Ended March 31,			
Basic:	2006 Income	Weighted Average Shares	2005 Income	Weighted Average Shares
Net Income	$ 1,812	11,593	$ 1,380	11,367
Preferred Dividend	(62)		(64)	
Earnings Applicable to Common Stock	$ 1,750	11,593	$ 1,316	11,367
Basic EPS	$ 0.15		$ 0.12	
Diluted:				
Earnings Applicable to Common Stock	$ 1,750	11,593	$ 1,316	11,367
$7.00 Series Preferred Dividend	24	167	26	179
$8.00 Series Preferred Dividend	24	164	24	164
Adjusted Earnings Applicable to Common Stock	$ 1,798	11,924	$ 1,366	11,710

Diluted EPS	$ 0.15	$ 0.12

Note 4 - Business Segment Data

The Company has identified two reportable segments. One is the regulated business of collecting, treating and distributing water on a retail and wholesale basis to residential, commercial, industrial and fire protection customers in parts of New Jersey and Delaware. This segment also includes the operations of a regulated wastewater system in New Jersey. The Company is subject to regulations as to its rates, services and other matters by the States of New Jersey and Delaware with respect to utility services within these States. The other segment primarily includes non-regulated contract services for the operation and maintenance of municipal and private water and wastewater systems in New Jersey and Delaware. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Consolidated Notes to the Financial Statements in the Company's Annual Report for the period ended December 31, 2005 filed on Form 10-K. 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. These inter-segment transactions are eliminated in the Company's consolidated financial statements.

	(Dollars in Thousands) Three Months Ended March 31,	
Operations by Segments:	2006	2005
Revenues:		
Regulated	$ 16,001	$ 14,759
Non - Regulated	2,259	2,014
Inter-segment Elimination	(30)	(30)
Consolidated Revenues	$ 18,230	$ 16,743
Operating Income:		
Regulated	$ 3,703	$ 2,963
Non - Regulated	270	208
Consolidated Operating Income	$ 3,973	$ 3,171
Net Income:		
Regulated	$ 1,666	$ 1,273
Non - Regulated	146	107
Consolidated Net Income	$ 1,812	$ 1,380
Capital Expenditures:		
Regulated	$ 4,531	$ 4,133
Non - Regulated	18	59
Total Capital Expenditures	$ 4,549	$ 4,192

	As of March 31,2006	As of December 31,2005

Assets:		
Regulated	$324,787	$320,889
Non - Regulated	5,549	5,912
Inter-segment Elimination	(2,564)	(2,418)
Consolidated Assets	$327,772	$324,383

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Note 5 - Short-term Borrowings

As of March 31, 2006, the Company has established lines of credit aggregating $40.0 million. At March 31, 2006, the outstanding borrowings under these credit lines were $7.2 million at a weighted average interest rate of 5.24%. As of that date, the Company had borrowing capacity of $32.8 million under its credit lines.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were $5.9 million and $10.4 million at 5.59% and 3.85% for the three months ended March 31, 2006 and 2005, respectively.

Note 6 - Commitments and Contingent Liabilities

Guarantees - USA-PA operates the City of Perth Amboy's (Perth Amboy) water and wastewater systems under a service contract agreement through June 30, 2018. The agreement was effected under New Jersey's Water Supply Public/Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act. Under the agreement, USA-PA receives a fixed fee and a variable fee based on increased system billing. Scheduled fixed fee payments for 2006 are $7.6 million. The fixed fees will increase over the term of the contract to $10.2 million.

In connection with the agreement, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately $68.0 million in three series of bonds. Middlesex guaranteed one of those series of bonds, designated the Series C Serial Bonds, in the principal amount of approximately $26.3 million. Perth Amboy guaranteed the two other series of bonds. The Series C Serial Bonds have various maturity dates with the final maturity date on September 1, 2015. As of March 31, 2006, approximately $23.9 million of the Series C Serial Bonds remained outstanding.

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

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

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

Purchased water costs are shown below:

Purchased Water	(Millions of Dollars) Three Months Ended March 31, 2006	2005
Untreated	$ 0.6	$ 0.6
Treated	0.4	0.4
Total Costs	$ 1.0	$ 1.0

Construction - The Company expects to spend approximately $44.5 million on its construction program in 2006.

Litigation - A lawsuit was filed in 1998 against the Company by an electric utility for damages involving the break of both a Company water line and an underground electric power cable containing both electric lines and petroleum based insulating fluid. The electric utility also asserted claims against the Company. The lawsuit was settled in 2003, and by agreement, the electric utility's counterclaim for approximately $1.1 million in damages was submitted to binding arbitration, in which the agreed maximum exposure of the Company is $0.3 million, for which the Company has accrued a liability. While we are unable to predict the outcome of the arbitration, we believe that we have substantial defenses.

During 2005, the Office of State Fire Marshal in Delaware issued a Notice of Violation (NOV) to Tidewater regarding a plan of correction to provide fire protection services to one of Tidewater's community water systems, based upon a recent interpretation by the Fire Marshal of regulations that have been effective since 1989. Tidewater has appealed this NOV in the Superior Court of the State of Delaware on the grounds that the water system was grandfathered under the 1989 regulations and that due process had not been served in the application of the recent interpretation. It is the Company's position that Tidewater is not required to provide fire protection service to that water system. If Tidewater is not successful in its appeal, it would be required to install a fire protection system in this community at an estimated capital cost of $0.9 million to $1.6 million. If the Company is unsuccessful in its appeal, we cannot predict what further actions, if any, or the costs or timing thereof, may be taken by the Fire Marshal regarding over 60 of Tidewater's other community water systems. However, such amounts could be material. The Company believes that any capital investments resulting from an unfavorable outcome would be a component of Tidewater's rate base and therefore, included in future rates. While we are unable to predict the outcome of our appeal, we believe that we have substantial defenses.

The Company is a defendant in various 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 7 - Employee Retirement Benefit Plans

Pension - The Company has a noncontributory defined benefit pension plan, which covers all employees with more than 1,000 hours of service. The Company expects to make cash contributions of $1.2 million during the current year. These contributions are expected to be made during the second quarter of 2006. In addition, the Company maintains an unfunded supplemental pension plan for its executives.

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Postretirement Benefits Other Than Pensions - The Company maintains a postretirement benefit plan other than pensions for substantially all of its retired employees. Coverage includes healthcare and life insurance. Retiree contributions are dependent on credited years of service. The Company expects to make total cash contributions of $1.0 million during the current year. These contributions are expected to be made each quarter during 2006.

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

	(Dollars in Thousands)			
	Pension Benefits		Other Benefits	
	Three Months Ended March 31,			
	2006	2005	2006	2005
Service Cost	$ 310	$ 264	$ 177	$ 126
Interest Cost	430	374	217	161
Expected Return on Assets	(415)	(384)	(90)	(66)
Amortization of Unrecognized Losses	57	3	129	82
Amortization of Unrecognized Prior Service Cost	1	23	--	--
Amortization of Transition Obligation	--	--	34	34
Net Periodic Benefit Cost	$ 383	$ 280	$ 467	$ 337

Note 8 - Other Comprehensive Income

Comprehensive income was as follows:

	Three Months Ended March 31,	
	2006	2005
Net Income	$ 1,812,364	$ 1,379,702
Other Comprehensive Income (Loss): Change in Value of Equity Investments,		

Net of Income Tax	223	(613)
Other Comprehensive Income	223	(613)
Comprehensive Income	$ 1,812,587	$ 1,379,089

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

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of the Company included elsewhere herein and with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

Forward-Looking Statements

Certain statements contained in this quarterly report are "forward-looking statements" within the meaning of federal securities laws. The Company intends that these statements be covered by the safe harbors created under those laws. These statements include, but are not limited to:

- statements as to expected financial condition, performance, prospects and earnings of the Company;
- statements regarding strategic plans for growth;
- statements regarding the amount and timing of rate increases and other regulatory matters;
- statements regarding expectations and events concerning capital expenditures;
- statements as to the Company's expected liquidity needs during fiscal 2006 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 pension plan, 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 and outcomes include, but are not limited to:

- the effects of general economic conditions;

- increases in competition in the markets served by the Company;
- the ability of the Company to control operating expenses and to achieve efficiencies in its operations;
- the availability of adequate supplies of water;
- actions taken by government regulators, including decisions on base rate increase requests;
- new or additional water quality standards;
- weather variations and other natural phenomena;
- acts of war or terrorism; and
- other factors discussed elsewhere in this quarterly report.

Many of these factors are beyond the Company's ability to control or predict. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which only speak to the

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Company's understanding as of the date of this quarterly 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 quarterly report or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

For an additional discussion of factors that may affect the Company's business and results of operations, see Item 1A. - Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

Overview

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

Our New Jersey water utility system (the Middlesex System) provides water services to approximately 58,500 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 267,000. Through our subsidiary, USA-PA, we operate the water supply system and wastewater collection system for the City of Perth Amboy, New Jersey. Pinelands Water and Pinelands Wastewater provide water and wastewater services to residents in Southampton Township, New Jersey.

Tidewater and Southern Shores provide water services to approximately 28,700 retail customers in New Castle, Kent, and Sussex Counties, Delaware. Our TESI subsidiary provides service to approximately 30 residential retail customers. White Marsh serves 4,000 residents under unregulated operating contracts with various owners of small water and wastewater systems in Kent and Sussex Counties.

Our USA subsidiary provides customers within the Middlesex System a service line maintenance program called LineCareSM.

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

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

Recent Developments

Rate Increases

On April 28, 2006, Tidewater filed for a $5.5 million, or 38.6%, base rate increase with the Delaware Public Service Commission (PSC) on April 28, 2006. The requested increase is intended to recover increased costs of operations, maintenance and taxes, as well as capital investment of approximately $23.8 million since March 2005. We cannot predict whether the PSC will ultimately approve, deny, or reduce the amount of our request. Concurrent with the rate increase filing, Tidewater also submitted a request for a 15% interim rate increase subject to refund. Under PSC regulations, interim rates may go into effect 60 days after the initial request is submitted.

Effective April 13, 2006, Pinelands Water and Pinelands Wastewater received approval from the BPU for base rate increases of 7.02% and 0.98%, respectively. This increase represents a total base rate increase of approximately $0.1 million for Pinelands to help offset the increased costs associated with capital improvements, and the operation and maintenance of their systems.

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2006. Under the terms of a contract with the Southern Shores Homeowners Association, the increase cannot exceed the lesser of the regional Consumer Price Index or 3%. The rates are set to expire on December 31, 2006, and the Company is currently negotiating a new agreement.

Merger of Bayview Water Company into Middlesex Water Company

In December 2005, the BPU approved a merger of Bayview into the Middlesex system effective January 1, 2006. As part of the BPU's stipulation approving the merger, the water service rates for the customers of Bayview are to remain at their current levels until the water service rates for Middlesex customers exceed the current Bayview rates.

Operating Results by Segment

The Company has two operating segments, Regulated and Non-Regulated. Our Regulated segment contributed 88% of total revenues and 92% of net income for the three months ended March 31, 2006 and 2005. 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, and TESI; Non-Regulated- USA, USA-PA, and White Marsh.

Results of Operations - Three Months Ended March 31, 2006

(Thousands of Dollars)
Three Months Ended March 31,

	2006 Regulated	2006 Non-Regulated	2006 Total	2005 Regulated	2005 Non-Regulated
Revenues	$ 16,001	$ 2,229	$ 18,230	$ 14,759	$ 1,984
Operations and maintenance expenses	8,512	1,873	10,385	8,247	1,694
Depreciation expense	1,641	27	1,668	1,527	21
Other taxes	2,145	59	2,204	2,022	61
Operating income	3,703	270	3,973	2,963	208
Other income	169	--	169	258	--
Interest expense	1,488	27	1,515	1,359	23
Income taxes	718	97	815	589	78
Net income	$ 1,666	$ 146	$ 1,812	$ 1,273	$ 107

Operating revenues for the three months ended March 31, 2006 increased $1.5 million or 8.9% from the same period in 2005. Water sales increased by $1.0 million in our New Jersey systems, which was primarily a result of base rate increases. Revenues rose in our Delaware systems by $0.3 million. Customer growth in Delaware provided additional water consumption sales, facility charges and connection fees totaling $0.2 million. Base rate increases accounted for $0.1 million of the increase. New unregulated wastewater contracts in Delaware provided $0.1 million of additional revenues. USA's LineCareSM maintenance program contributed an additional $0.1 million for new contracts sold since the same period in 2005. Revenues for all of our other operations were consistent with the same period in 2005.

While we anticipate continued organic customer and consumption growth in our Delaware systems, such growth and increased consumption cannot be guaranteed. Revenues from our water systems are highly dependent on the effects of weather, which may adversely impact future consumption despite customer growth. Appreciable organic customer and consumption growth is less likely in our New Jersey systems due to the extent to which our service territory is developed.

Operation and maintenance expenses increased $0.4 million or 4.5%. Water production and treatment costs for the Middlesex system increased $0.2 million. This increase was offset by reduced payroll and benefits costs of $0.2 million in New Jersey. In Delaware, insurance, legal fees, and additional employees and related benefit expenses increased by $0.2 million. The costs of providing services for new unregulated wastewater contracts increased by $0.1 million. Costs for all of our other operations increased by $0.1 million.

We anticipate increases in electric generation costs beginning May 2006 in Delaware due to deregulation of electricity. We expect our pension and postretirement costs to increase in 2006. Payroll and related employee benefit costs (excluding pension and postretirement expenses previously discussed) are also expected to be higher in 2006.

Depreciation expense increased $0.1 million or 7.8%, primarily as a result of a higher level of utility plant in service.

Other taxes increased by $0.1 million, reflecting higher taxes on taxable gross revenues.

Other income decreased $0.1 million, primarily due to reduced AFUDC as a result of the completion of a new $9.3 million raw water pipeline in New Jersey in April 2005.

Interest expense increased by $0.1 million, primarily due to higher average long-term borrowings as compared to the prior year period.

Higher income taxes of $0.1 million over the prior year are attributable to improved operating results for 2006 as compared to 2005.

Net income increased by 31.3% to $1.8 million, and basic and diluted earnings per share increased from $0.12 to $0.15.

Liquidity and Capital Resources

Cash flows from operations are largely dependent on three factors: the impact of weather on water sales, adequate and timely rate increases, and customer growth. The effect of those factors on net income is discussed in results of operations. For the three months ended March 31, 2006, cash flows from operating activities were $4.7 million, which was $1.7 million higher than the prior year. This increase was attributable to the timing of collection of customer accounts and payments for taxes. These increases were partially offset by the timing of payments to vendors and payments of interest. The $4.7 million of net cash flow from operations allowed us to fund all of our utility plant expenditures internally for the period.

The Company's capital program for 2006 is estimated to be $44.5 million and includes $20.2 million for additions and improvements to our Delaware water systems, including the construction of several storage tanks and the creation of new wells and interconnections. We expect to spend approximately $13.9 million for system additions and acquisitions for our Delaware wastewater systems. We expect to spend $3.3 million for the RENEW program, to clean and cement line approximately nine miles of unlined mains in the Middlesex system. There remains a total of approximately 120 miles of unlined mains in the 730-mile Middlesex system. The capital program also includes $7.1 million for scheduled upgrades to facilities in New Jersey. These upgrades consist of $1.4 million for improvements to existing plant, $1.0 million for mains, $0.8 million for service lines, $0.4 million for meters, $0.3 million for hydrants, and $3.2 million for other infrastructure needs.

To fund our capital program in 2006, we will utilize internally generated funds and funds available under existing New Jersey Environmental Infrastructure Trust (NJEIT) loans (currently, $4.1 million) and Delaware State Revolving Fund (SRF) loans (currently, $2.9 million), which provide low cost financing for projects that meet certain water quality and system improvement benchmarks. We will also utilize short-term borrowings through $40.0 million of available lines of credit with several financial institutions. As of March 31, 2006, $7.2 million was outstanding against the lines of credit.

Middlesex filed an application with the BPU seeking approval to issue up to $4.0 million of first mortgage bonds through the NJEIT. If approved by the BPU, the Company expects to close on the bonds in November 2006.

On April 25, 2006, Tidewater received approval from the PSC to borrow up to $1.0

million under the Delaware SRF program. The Delaware SRF program allows, but does not obligate, Tidewater to draw against a General Obligation Note for a specific project over a two-year period ending in April 2008. The interest rate is set on the

loan closing date and is based on 62.5% of the interest rate for a 10+ year high quality corporate bond. The Company expects to close on the loan during May 2006.

The Company periodically issues shares of common stock in connection with its dividend reinvestment and stock purchase plan. From time to time, the Company may issue additional equity to reduce short-term indebtedness, align its capital structure with utility commission guidelines, and for other general corporate purposes.

Going forward into 2007 through 2008, we currently project that we will be required to expend approximately $112.2 million for capital projects. To the extent possible and because of the favorable interest rates available to regulated water utilities, we will finance our capital expenditures under SRF loan programs. We also expect to use internally generated funds and proceeds from the sale of common stock through the Dividend Reinvestment and Common Stock Purchase Plan. We also expect to sell shares of our common stock through a public offering in late 2006 or early 2007.

In addition to the effect of weather conditions on revenues, increases in certain operating costs will impact our liquidity and capital resources. As described in our overview section, we have recently received rate relief for Middlesex and Pinelands. Changes in operating costs and timing of capital projects will have an impact on revenues, earnings, and cash flows and will also impact the timing of filings for future rate increases.

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

Item 3. Quantitative and Qualitative Disclosures of Market Risk

The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our capital program is partially financed with fixed rate, long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our Amortizing Secured Notes and First Mortgage Bonds, which have maturity dates ranging from 2009 to 2038. Over the next twelve months, approximately $2.0 million of the current portion of fifteen existing long-term debt instruments will mature. Applying a hypothetical change in the rate of interest of 10% on those borrowings would not have a material effect on earnings.

Item 4. Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted by the Company's Chief Executive Officer along with the Company's Chief Financial Officer. Based upon that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this Report. There have been no significant changes in the Company's internal controls or in other factors, which could significantly affect internal controls during the quarter ended March 31, 2006.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the

Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding disclosure.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

Item 1A. Risk Factors

Information about risk factors for the three months ended March 31, 2006 does not differ materially from those set forth in Part I, Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

10 Copy of Water Service Agreement between the Company and Elizabethtown Water Company, dated February 28, 2006.

10.1 Copy of amended Supply Agreement, dated as of January 1, 2006, between the Company and the Borough of Highland Park.

10.2 Copy of Supply Agreement, dated as of April 1, 2006, between the Company and the City of Rahway.

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. ss.1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

SIGNATURES

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

MIDDLESEX WATER COMPANY

By: /s/ A. Bruce O'Connor

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

Date: May 8, 2006