KLA TENCOR CORP
Form 10-Q
January 29, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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: September 30, 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 0-9992

KLA-Tencor Corporation

(Exact name of registrant as specified in its charter)

Delaware	**04-2564110**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

160 Rio Robles

San Jose, California

95134

(Address of principal executive offices)

(Zip Code)

(408) 875-3000

(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 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 a large accelerated filer, 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 x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of December 31, 2006 there were 199,725,957 shares of the Registrant s Common Stock, $0.001 par value, outstanding.

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EXPLANATORY NOTE REGARDING RESTATEMENTS

This Quarterly Report on Form 10-Q for our quarter ended September 30, 2006 includes restatements of our condensed consolidated financial statements for our quarter ended September 30, 2005 (and related disclosures). See Note 2, Restatements of Consolidated Financial Statements and Special Committee and Company Findings, to Condensed Consolidated Financial Statements for a detailed discussion of the effect of the restatements.

As a result of an investigation of our historical stock option practices by a Special Committee of our Board of Directors, we discovered that certain of our stock options, primarily those granted from July 1, 1997 to June 30, 2002, had been retroactively priced for all employees who received these grants (less than 15% of these options were granted to executive officers). This means that the option exercise price was not the market price of the option shares on the actual grant date of the option, but instead was a lower market price on an earlier date. The actual grant date when the essential actions necessary to grant the option were completed, including the final determination of the number of shares to be granted to each employee and the exercise price is the correct measurement date to determine the market price of the option shares under the accounting rules in effect at the time. More than 95% of the total in-the-money value (market price on the actual grant date minus exercise price) of all of our retroactively priced options was attributable to those granted from July 1, 1997 to June 30, 2002.

We previously applied Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and its related Interpretations and provided the required pro forma disclosures of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, through the fiscal year ended June 30, 2005. Under APB Opinion No. 25, a non-cash, stock-based compensation expense was recognized for any option for which the exercise price was below the market price on the actual grant date. Because each of our retroactively priced options had an exercise price below the market price on the actual grant date, there should have been a charge for each of these options under APB Opinion No. 25 equal to the number of option shares, multiplied by the difference between the exercise price and the market price on the actual grant date. That expense should have been amortized over the vesting period of the option. Starting in our fiscal year ended June 30, 2006, we adopted SFAS No. 123(R), Share-Based Payment. As a result, for fiscal year 2006, the additional stock-based compensation expense required to be recorded for each retroactively priced option was equal to the incremental fair value of these options on the actual grant date over the remaining vesting period of the option. We did not record these stock-based compensation expenses under APB Opinion No. 25 or SFAS No. 123(R) related to our retroactively priced options in our previously issued financial statements, and that is why we are restating them in this filing. To correct our past accounting for stock options, we recorded additional pre-tax, non-cash, stock-based compensation expense of (a) $348 million for the periods July 1, 1994 to June 30, 2005 under APB Opinion No. 25 and (b) $27 million for the period from July 1, 2005 through September 30, 2006 under SFAS No. 123(R). We expect to amortize an additional $1 million of such pre-tax charges under SFAS No. 123(R) in future periods to properly account for past retroactively priced option grants.

Management reviewed the findings of the Special Committee and conducted its own internal review of our past stock option grants and other aspects of our historical financial statements. Management agrees with the Special Committee that there was retroactive pricing of stock options granted to all option holders, primarily from July 1, 1997 to June 30, 2002. The restatements included in this Quarterly Report on Form 10-Q include adjustments arising from the Special Committee investigation and management s internal review.

Unless otherwise noted, all of the information in this Quarterly Report on Form 10-Q is as of September 30, 2006. This Report does not reflect any subsequent events that occurred after September 30, 2006 other than the Special Committee investigation, resulting restatements and related matters. We will later restate our previously filed financial statements for the quarters ended December 31, 2005 and March 31, 2006 when included in our Quarterly Reports on Form 10-Q for the quarters ended December 31, 2006 and March 31, 2007, respectively. We have not amended and do not intend to amend any of our previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the restatements. Such previous filings should not be relied upon.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

KLA-TENCOR CORPORATION

Condensed Consolidated Balance Sheets

(Unaudited)

(in thousands)	September 30, 2006	June 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,199,969	$ 1,129,191
Marketable securities	1,225,814	1,196,605
Accounts receivable, net	415,403	439,899
Inventories	490,988	449,156
Deferred income taxes	253,691	253,811
Other current assets	63,166	74,581
Total current assets	3,649,031	3,543,243
Land, property and equipment, net	394,239	395,412
Other assets	647,913	637,256
Total assets	$ 4,691,183	$ 4,575,911
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 107,247	$ 95,192
Deferred system profit	218,589	226,142
Unearned revenue	81,448	80,543
Other current liabilities	534,673	600,604
Total current liabilities	941,957	1,002,481
Commitments and contingencies (Note 11)		
Minority interest in subsidiary	4,086	5,439
Stockholders equity:		
Common stock and capital in excess of par value	1,476,483	1,421,373
Retained earnings	2,249,472	2,137,710
Accumulated other comprehensive income	19,185	8,908
Total stockholders equity	3,745,140	3,567,991
Total liabilities, minority interest and stockholders equity	$ 4,691,183	$ 4,575,911

See accompanying notes to condensed consolidated financial statements (unaudited).

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KLA-TENCOR CORPORATION

Condensed Consolidated Statements of Operations

(Unaudited)

	Three months ended September 30,	
(in thousands except per share data)	**2006**	**2005 As restated (1)**
Revenues:		
Product	$ 530,927	$ 399,001
Service	98,436	85,260
Total revenues	629,363	484,261
Costs and operating expenses:		
Costs of revenues*	270,119	215,137
Engineering, research and development*	99,293	98,770
Selling, general and administrative*	105,961	95,364
Total costs and operating expenses	475,373	409,271
Income from operations	153,990	74,990
Interest income and other, net	22,457	14,076
Income before income taxes and minority interest	176,447	89,066
Provision for income taxes	41,368	14,324
Income before minority interest	135,079	74,742
Minority interest	843	745
Net income	$ 135,922	$ 75,487
Net income per share:		
Basic	$ 0.68	$ 0.38
Diluted	$ 0.67	$ 0.37
Weighted-average number of shares:		
Basic	199,416	197,408
Diluted	203,323	203,292

* includes the following amounts related to equity awards

Costs of revenues	$ 8,587	$ 7,178
Engineering, research and development	11,705	13,029
Selling, general and administrative	16,755	19,520

(1) See Note 2, Restatements of Consolidated Financial Statements and Special Committee and Company Findings, to Condensed Consolidated Financial Statements (unaudited)

See accompanying notes to condensed consolidated financial statements (unaudited).

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KLA-TENCOR CORPORATION

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended September 30,	
(in thousands)	**2006**	**2005 As restated (1)**
Cash flows from operating activities:		
Net income	$ 135,922	$ 75,487
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,798	17,814
Non-cash, stock-based compensation	37,047	39,727
Tax benefit from employee stock options	465	7,354
Excess tax benefit from stock-based compensation cost	(1,045)	(4,491)
Minority interest	(843)	(745)
Net loss (gain) on sale of marketable securities and other investments	2,199	(441)
Changes in assets and liabilities, net of effect of acquisitions of businesses:		
Accounts receivable, net	20,626	20,984
Inventories	(43,104)	(37,967)
Other assets	991	(13,027)
Accounts payable	12,209	(9,288)
Deferred system profit	(7,553)	(27,631)
Other current liabilities	(64,744)	(55,287)
Net cash provided by operating activities	106,968	12,489
Cash flows from investing activities:		
Capital expenditures, net	(12,313)	(18,049)
Purchase of available-for-sale securities	(1,156,837)	(1,236,258)
Proceeds from sale of available-for-sale securities	1,001,712	1,260,882
Proceeds from maturity of available-for-sale securities	133,271	63,036
Net cash (used in) provided by investing activities	(34,167)	69,611
Cash flows from financing activities:		
Issuance of common stock	18,600	56,142
Stock repurchases		(35,488)
Payment of dividends to stockholders	(24,160)	(23,709)
Proceeds from sale of minority interest in subsidiary		1,579
Excess tax benefit from stock-based compensation cost	1,045	4,491
Net cash (used in) provided by financing activities	(4,515)	3,015
Effect of exchange rate changes on cash and cash equivalents	2,492	244
Net increase in cash and cash equivalents	70,778	85,359
Cash and cash equivalents at beginning of period	1,129,191	663,163
Cash and cash equivalents at end of period	$ 1,199,969	$ 748,522

Supplemental cash flow disclosures:				
Income taxes paid, net	$	83,868	$	8,660
Interest paid	$	737	$	297

(1) See Note 2, Restatements of Consolidated Financial Statements and Special Committee and Company Findings, to Condensed Consolidated Financial Statements (unaudited)

See accompanying notes to condensed consolidated financial statements (unaudited).

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KLA-TENCOR CORPORATION

Notes to Condensed Consolidated Financial Statements

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

Basis of Presentation. The condensed consolidated financial statements have been prepared by KLA-Tencor Corporation (KLA-Tencor or the Company) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited interim financial statements reflect all adjustments (consisting only of normal, recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows for the periods indicated. These financial statements and notes, however, should be read in conjunction with Item 8, Financial Statements and Supplementary Data included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2006, filed with the SEC on January 29, 2007.

The condensed consolidated financial statements include the accounts of KLA-Tencor and its majority-owned subsidiaries, and the ownership interests of minority investors are recorded as minority interests. All significant intercompany balances and transactions have been eliminated. The Company has included the results of operations of acquired companies from the date of acquisition. See Note 5 Business Combinations.

The results of operations for the three month period ended September 30, 2006 are not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year ending June 30, 2007.

Management Estimates. The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Recent Accounting Pronouncements. In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB No. 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. SAB No. 108 requires registrants to quantify the impact of correcting all misstatements using both the rollover method, which focuses primarily on the impact of a misstatement on the income statement and is the method that was previously used by the Company, and the iron curtain method, which focuses primarily on the effect of correcting the period-end balance sheet. The use of both of these methods is referred to as the dual approach and should be combined with the evaluation of qualitative elements surrounding the errors in accordance with SAB No. 99, Materiality. The provisions of SAB No. 108 are effective for the Company for fiscal years beginning July 1, 2006. The adoption of SAB No. 108 did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

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In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for the Company for fiscal years beginning July 1, 2008. The Company is evaluating the impact of the provisions of this statement on its consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. SFAS No. 158 requires employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other post-retirement plans in their financial statements. The provisions of SFAS No. 158 are effective for the Company as of the end of the fiscal year ending June 30, 2007. The Company is evaluating the impact of the provisions of this statement on its consolidated financial position, results of operations and cash flows.

In June 2006, the FASB published FASB Interpretation No. 48 (FIN), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for the Company in fiscal years beginning July 1, 2007. The Company is evaluating the impact of the provisions of this Interpretation on its consolidated financial position, results of operations and cash flows.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This Statement is effective for the Company for all financial instruments acquired or issued after July 1, 2007. The adoption of SFAS No. 155 is not expected to have a material effect on the Company s consolidated financial position, results of operations or cash flows.

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS No. 154 requires retrospective application to prior periods financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for the Company for accounting changes made in fiscal years beginning July 1, 2006; however, the Statement does not change the transition provisions of any existing accounting pronouncements. The adoption of SFAS No. 154 did not have a material effect on the Company s consolidated financial position, results of operations or cash flows.

In March 2005, the FASB published FIN No. 47, Accounting for Conditional Asset Retirement Obligations, which clarifies that the term, conditional asset retirement obligation, as used in SFAS No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. The Interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The adoption of this Interpretation did not have a material effect on the Company s consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29. SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. SFAS No. 153 was effective for the Company for nonmonetary asset exchanges beginning in the first quarter of fiscal 2006. The adoption of SFAS No. 153 did not have a material effect on the Company s consolidated financial position, results of operations or cash flows.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4. SFAS No. 151 clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period charges. The provisions of SFAS No. 151 are effective for the Company for fiscal years beginning July 1, 2005. The adoption of SFAS No. 151 did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

NOTE 2 RESTATEMENTS OF CONSOLIDATED FINANCIAL STATEMENTS AND SPECIAL COMMITTEE AND COMPANY FINDINGS

Special Committee Investigation of Historical Stock Option Practices

On May 22, 2006, the Wall Street Journal published an article about stock option backdating that questioned the stock option practices at several companies, including KLA-Tencor. On May 23, 2006, the Company received a subpoena from the United States Attorney s Office for the Northern District of California (USAO) and a letter of inquiry from the United States Securities and Exchange Commission (SEC) regarding the Company s stock option practices. Later on May 23, 2006, the Board of Directors appointed a Special Committee composed solely of independent directors to conduct a comprehensive investigation of the historical stock option practices. The Special Committee promptly engaged independent legal counsel and accounting experts to assist with the investigation. The investigation included an extensive review of the Company s historical stock option practices, accounting policies, accounting records, supporting documentation, email communications and other documentation, as well as interviews of a number of current and former directors, officers and employees. On September 27, 2006, the Special Committee reported the bulk of its findings and recommendations to the Board of Directors.

Findings and Remedial Actions

On September 28, 2006, the Company announced that it would have to restate its previously issued financial statements to correct its past accounting for stock options. As a result of the Special Committee investigation, the Company discovered that certain of its stock options, primarily those granted from July 1, 1997 to June 30, 2002, had been retroactively priced for all employees who received these grants. This means that the option exercise price was not the market price of the option shares on the actual grant date of the option, but instead was a lower market price on an earlier date. The actual grant date when the essential actions necessary to grant the option were completed, including the final determination of the number of shares to be granted to each employee and the exercise price is the correct measurement date to determine the market price of the option shares under the accounting rules in effect at the time. More than 95% of the total in-the-money value (market price on the actual grant date minus exercise price) of all of the Company s retroactively priced options was attributable to those granted from July 1, 1997 to June 30, 2002.

The Company previously applied Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and its related Interpretations and provided the required pro forma disclosures under Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation through its fiscal year ended June 30, 2005. Under APB Opinion No. 25, a non-cash, stock-based compensation expense was required to be recognized for any option for which the exercise price was below the market price on the actual grant date. Because each of the Company s retroactively priced options had an exercise price below the market price on the actual grant date, there should have been a non-cash charge for each of these options under APB Opinion No. 25 equal to the number of option shares, multiplied by the difference between the exercise price and the market price on the actual grant date. That expense should have been amortized over the vesting period of the option. Starting in its fiscal year ended June 30, 2006, the Company adopted SFAS No. 123(R), Share-Based Payment. As a result, beginning in fiscal year 2006, the additional stock-based compensation expense required to be recorded for each retroactively priced option is equal to the incremental fair value of the option on the actual grant date, amortized over the remaining vesting period of the option. The Company did not record these stock-based compensation expenses under APB Opinion No. 25 or SFAS No. 123(R) related to its retroactively priced options in the Company s previously issued financial statements, and that is why the Company is restating them in this filing. To correct the Company s past accounting for stock options, it recorded additional pre-tax, non-cash, stock-based compensation expense of (a) $348 million for the periods from July 1, 1994 to June 30, 2005 under APB Opinion No. 25 and (b) $27 million for the period from July 1, 2005 through September 30, 2006 under SFAS No. 123(R). The Company expects to amortize an additional $1 million of such pre-tax charges under SFAS No. 123(R) in future periods to properly account for past retroactively priced stock options.

By October 16, 2006, the Special Committee had substantially completed its investigation. The Special Committee concluded that (1) there was retroactive pricing of stock options granted to all employees who received options, primarily during the periods from July 1, 1997 to June 30, 2002 (less than 15% of these options were granted to executive officers), (2) the retroactively priced options were not accounted for correctly in the Company s previously issued financial statements, (3) the retroactive pricing of options was intentional, not inadvertent or through administrative error, (4) the retroactive pricing of options involved the selection of fortuitously low exercise prices by certain former executive officers, and other former executives may have been aware of this conduct, (5) the retroactive pricing of options involved the falsification of Company records, resulting in erroneous statements being made in financial and other reports previously filed with the SEC, as well as in information previously provided to the Company s independent registered public accounting firm, and (6) in most instances, the retroactive pricing of options violated the terms of the Company s stock option plans. Because virtually all holders of retroactively priced options issued by the Company were not involved in or aware of the retroactive pricing, the Board of Directors decided that the Company should continue to honor the options that violated the terms of the Company s stock option plans, except in certain individual cases as described below.

The Special Committee concluded that, with a few immaterial exceptions, the retroactive pricing of stock options stopped after June 30, 2002. After that time, there were procedures in place to provide reasonable assurance that stock options were priced on the grant date. The Special Committee also concluded that none of the Company s independent Directors was involved in or aware of the retroactive pricing of stock options. Based on the Special Committee s report, the Board of Directors concluded that no current members of management were involved in the retroactive pricing of stock options. During its investigation of the Company s historical stock option practices, the Special Committee did not find evidence of any other financial reporting or accounting issues.

As a result of the Special Committee investigation, on October 16, 2006, the Company terminated its employment relationship and agreement with Kenneth L. Schroeder, and the Company announced its intent to cancel all outstanding stock options held by

Mr. Schroeder that were retroactively priced or otherwise improperly granted. Those options were canceled in December 2006. Mr. Schroeder was the Company s Chief Executive Officer and a member of its Board of Directors from mid-1999 until January 1, 2006, and was a member of the Company s stock option committee from 1994 until December 31, 2005. From January 1, 2006 to October 16, 2006, Mr. Schroeder was employed as a Senior Advisor to the Company. On November 10, 2006, Mr. Schroeder s counsel informed the Company that Mr. Schroeder contests the Company s right to terminate his employment relationship and agreement and to cancel any of his options. The Company intends to vigorously defend any claims that may be made by Mr. Schroeder regarding these matters, which could involve a material amount.

Also on October 16, 2006, Stuart J. Nichols, Vice President and General Counsel, resigned. Mr. Nichols and the Company entered into a Separation Agreement and General Release under which Mr. Nichols outstanding retroactively priced stock options have been re-priced by increasing the exercise price to the market price of the option shares on the actual grant date. Under SFAS No. 123(R), no incremental charge will be recognized in the financial statements for the quarter ended December 31, 2006.

On October 16, 2006, Kenneth Levy, Founder and Chairman of the Board of Directors of the Company, retired as a director and employee, and was named Chairman Emeritus by the Board of Directors. Mr. Levy and the Company entered into a Separation Agreement and General Release under which Mr. Levy s outstanding retroactively priced stock options have been re-priced by increasing the exercise price to the market price of the option shares on the actual grant date. Under SFAS No. 123(R), no incremental charge will be recognized in the financial statements for the quarter ended December 31, 2006. Mr. Levy was the Company s Chief Executive Officer from 1975 until mid-1999 (with the exception of mid-1997 to mid-1998), was a member of the Company s Board of Directors from 1975 until his retirement, was Chairman of the Board of Directors from 1999 until his retirement, and was a member of the Company s stock option committee from 1994 until use of that committee was suspended in the fall of 2006.

On December 21, 2006, Jon D. Tompkins resigned as a director of the Company, and the Company agreed to modify the outstanding options held by Mr. Tompkins (all of which were fully vested) to extend the post-termination exercisability period to December 31, 2007, which is the last day of the calendar year in which those options would have terminated in the absence of such extension. Mr. Tompkins, the Chief Executive Officer of Tencor Instruments before its merger into the Company in mid-1997, was the Company s Chief Executive Officer from mid-1997 to mid-1998, was a member of the Company s stock option committee from mid-1997 until mid-1999, and was a member of the Company s Board of Directors from mid-1997 until his resignation.

Although the Board of Directors concluded that John H. Kispert, the Company s President and Chief Operating Officer, was not involved in and was not aware of the improper stock option practices, based on the Special Committee s recommendation, his outstanding retroactively priced options have been re-priced because he served as Chief Financial Officer during part of the period in question. This re-pricing involved increasing the exercise price to the market price of the option shares on the actual grant date. Under SFAS No. 123(R), no incremental charge will be recognized in the financial statements for the quarter ended December 31, 2006.

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Restatement and Impact on Financial Statements

In addition to restating the consolidated financial statements in response to the Special Committee s findings, the Company is recording additional non-cash adjustments that were previously considered to be immaterial relating primarily to the accounting for employee stock purchase plans, corrections for the recognition of deferred tax assets, the release of tax reserves, the timing of revenue recognition, gains and losses on hedging contracts and the calculation of minority interest. The Company has also corrected the classification of certain amounts presented as cash and cash equivalents and marketable securities relating to investments in Variable Rate Demand Notes. For the fiscal years ended June 30, 2004 and prior, the Company previously recorded no stock-based compensation expense; therefore, the additional stock-based compensation expense noted below represents the total stock-based compensation expense for these periods. For the year ended June 30, 2005, the Company recorded $2.9 million of stock-based compensation with a related tax benefit of $1.1 million in its previously reported financial statements. For fiscal 2005, total stock-based compensation was $37.0 million with a related tax benefit of $12.1 million. The income statement impact of the restatement is as follows (in thousands):

Years ended June 30,	Total effect at June 30, 2005	2005	2004	Cumulative effect at July 1, 2003	2003	2002
Net income, as previously reported		$ 466,695	$ 243,701			
Additional compensation expense resulting from improper measurement dates for stock option grants	$ (347,817)	(34,086)	(53,208)	$ (260,523)	(70,032)	(76,582)
Tax related effects	117,776	12,149	22,320	83,307	22,866	25,009
Additional compensation expense resulting from improper measurement dates for stock option grants, net of tax	(230,041)	(21,937)	(30,888)	(177,216)	(47,166)	(51,573)
Other adjustments, net of tax	(991)	291	(337)	(945)		
Total decrease to net income	$ (231,032)	(21,646)	(31,225)	$ (178,161)		
Net income, as restated		$ 445,049	$ 212,476			

Years ended June 30,	2001	2000	1999	1998	1997	1996	1995
Additional compensation expense resulting from improper measurement dates for stock option grants	$ (59,261)	$ (23,296)	$ (17,630)	$ (5,219)	$ (2,852)	$ (2,747)	$ (2,904)
Tax related effects	17,262	7,198	6,054	1,861	1,036	983	1,038
Additional compensation expense resulting from improper measurement dates for stock option grants, net of tax	$ (41,999)	$ (16,098)	$ (11,576)	$ (3,358)	$ (1,816)	$ (1,764)	$ (1,866)

The Company adopted SFAS No. 123(R) effective July 1, 2005. The grant date fair values of stock options granted prior to fiscal year 2006 were changed as a result of the findings that certain stock option grants were retroactively priced. This change resulted in additional stock-based compensation expense of $22 million (and a related tax benefit of $12 million) being recognized in fiscal year 2006 and $5 million (and a related tax benefit of $1.6 million) in the quarter ended September 30, 2006 under SFAS No. 123(R).

The cumulative effect of the restatements up through June 30, 2003 increased additional paid-in capital by $356 million from $815 million to $1.2 billion, increased deferred stock-based compensation from zero to $130 million, decreased retained earnings by $178 million from $1.4 billion to $1.2 billion, and increased total stockholders equity by $49 million from $2.2 billion to $2.3 billion.

Diluted shares in fiscal years 2004 and 2005 also increased as a result of the restatement adjustments to correct the past accounting for stock options that were retroactively priced. The Company uses the treasury stock method to calculate the weighted-average shares used in the diluted EPS calculation. As part of the restatement, the Company revised its treasury stock calculations in accordance with SFAS No. 128, Earnings Per Share. These calculations assume that (i) all retroactively priced options are exercised, (ii) the Company repurchases shares with the proceeds of these hypothetical exercises along with the tax benefit resulting from the hypothetical exercises, and (iii) any unamortized deferred stock-based compensation is also used to repurchase shares.

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In addition, the Company evaluated the impact of the restatement on its global tax provision. The Company and its subsidiaries file tax returns in multiple tax jurisdictions around the world. In certain jurisdictions, including, but not limited to, the United States and the United Kingdom, the Company is able to claim a tax deduction relative to stock options. In those jurisdictions, where a tax deduction is claimed, the Company has recorded deferred tax assets, totaling $51.6 million at June 30, 2005, to reflect future tax deductions to the extent the Company believes such assets to be recoverable. The Company also believes that it should not have taken a United States tax deduction in prior years for stock option related amounts pertaining to certain executives under Internal Revenue Code (IRC) Section 162 (m). Section 162 (m) limits the deductibility of compensation above certain thresholds. The Company has determined that excess deductions were taken on prior tax returns due to the finding that retroactive pricing of certain stock options occurred. As a result, the Company s tax liabilities have increased by approximately $8 million.

Because virtually all holders of retroactively priced options issued by the Company were not involved in or aware of the retroactive pricing, the Company has taken and intends to take certain actions to deal with the adverse tax consequences that may be incurred by the holders of retroactively priced options. The adverse tax consequences are that retroactively priced stock options vesting after December 31, 2004 (409A Affected Options) subject the option holder to a penalty tax under IRC Section 409A (and, as applicable, similar penalty taxes under California and other state tax laws). One such action by the Company is to offer to amend the 409A Affected Options to increase the exercise price to the market price on the actual grant date or, if lower, the market price at the time of the amendment. The amended options would not be subject to taxation under IRC Section 409A. Under IRS regulations, these option amendments had to be completed by December 31, 2006 for anyone who was an executive officer when he or she received 409A Affected Options; the amendments for non-officers cannot be offered until after this Report is filed and do not need to be completed until December 31, 2007. Another action is to approve bonuses payable to holders of the amended options to compensate them for the resulting increase in their option exercise price. The amount of these bonuses would be effectively repaid to the Company if and when the options are exercised and the increased exercise price is paid (but there is no assurance that the options will be exercised). Finally, the Company intends to compensate certain option holders who have already exercised 409A Affected Options for the additional taxes they incur under IRC Section 409A (and, as applicable, similar state tax laws).

Three of the Company s option holders were subject to the December 31, 2006 deadline described above. Accordingly, in December 2006, the Company offered to amend the 409A Affected Options held by Mr. Wallace, the Company s Chief Executive Officer, and two former executive officers to increase the exercise price so that these options will not subject the option holder to a penalty tax under IRC Section 409A. All three individuals accepted the Company s offer. In addition, the Company agreed to pay each of the three individuals a cash bonus in January 2008 equal to the aggregate increase in the exercise prices for his amended options. For Mr. Wallace, the amount of this bonus is $0.4 million. To account for these actions, the Company will record a net charge of $0.3 million in the quarter ended December 31, 2006. The Company plans to take similar actions with respect to the outstanding 409A Affected Options granted to non-officers as soon as possible after the filing of this Report. The Company estimates that the total cash payments needed to deal with the adverse tax consequences of retroactively priced options granted to non-officers will be approximately $30 million.

With respect to the individuals whose options were canceled or re-priced by the Company following the Special Committee investigation, no bonuses of the type described above will be paid.

The following tables have been revised to reflect the impact of the additional non-cash charges for stock-based compensation expense and related tax effects as well as additional non-cash adjustments that were previously considered to be immaterial and the correct classification as marketable securities of Variable Rate Demand Notes on:

- the condensed consolidated statements of operations for the three months ended September 30, 2005.

- the condensed consolidated statements of cash flows for the three months ended September 30, 2005.

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Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share data)	Three Months Ended September 30, 2005 As previously reported	Adjustments	As restated
Revenues:			
Product	$ 399,950	$ (949)	$ 399,001
Service	83,910	1,350	85,260
Total revenues	483,860	401	484,261
Costs and operating expenses:			
Costs of revenues*	214,220	917	215,137
Engineering, research and development*	96,751	2,019	98,770
Selling, general and administrative*	92,051	3,313	95,364
Total costs and operating expenses	403,022	6,249	409,271
Income from operations	80,838	(5,848)	74,990
Interest income and other, net	14,776	(700)	14,076
Income before income taxes and minority interest	95,614	(6,548)	89,066
Provision for income taxes	19,681	(5,357)	14,324
Income before minority interest	75,933	(1,191)	74,742
Minority interest	745		745
Net income	$ 76,678	$ (1,191)	$ 75,487
Net income per share:			
Basic	$ 0.39	$ (0.01)	$ 0.38
Diluted	$ 0.38	$ (0.01)	$ 0.37
Weighted-average number of shares:			
Basic	197,408		197,408
Diluted	202,715	577	203,292

* includes the following amounts related to equity awards

Costs of revenues	$ 6,811	$ 367	$ 7,178
Engineering, research and development	11,010	2,019	13,029
Selling, general and administrative	17,007	2,513	19,520

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Condensed Consolidated Statements of Cash Flows

(in thousands)	Three Months Ended September 30, 2005		
	As previously reported	**Adjustments**	**As restated**
Cash flows from operating activities:			
Net income	$ 76,678	$ (1,191)	$ 75,487
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,114	700	17,814
Non-cash, stock-based compensation	34,828	4,899	39,727
Minority interest	(745)		(745)
Net gain on sale of marketable securities and other investments	(441)		(441)
Tax benefit from employee stock options	14,145	(6,791)	7,354
Excess tax benefit from stock-based compensation cost	(5,018)	527	(4,491)
Changes in assets and liabilities:			
Accounts receivable, net	21,141	(157)	20,984
Inventories	(36,310)	(1,657)	(37,967)
Other assets	(15,085)	2,058	(13,027)
Accounts payable	(9,288)		(9,288)
Deferred system profit	(29,552)	1,921	(27,631)
Other current liabilities	(55,505)	218	(55,287)
Net cash provided by operating activities	11,962	527	12,489
Cash flows from investing activities:			
Purchase of property, plant and equipment	(18,049)		(18,049)
Purchase of available-for-sale securities	(1,236,258)		(1,236,258)
Proceeds from sale of available-for-sale securities	1,260,882		1,260,882
Proceeds from maturity of available-for-sale securities	63,036		63,036
Net cash provided by investing activities	69,611		69,611
Cash flows from financing activities:			
Issuance of common stock	56,142		56,142
Payment of dividends to stockholders	(23,709)		(23,709)
Excess tax benefit from stock-based compensation cost	5,018	(527)	4,491
Stock repurchases	(35,488)		(35,488)
Proceeds from sale of minority interest in subsidiary	1,579		1,579
Net cash provided by financing activities	3,542	(527)	3,015
Effect of exchange rate changes on cash and cash equivalents	244		244
Net increase in cash and cash equivalents	85,359		85,359
Cash and cash equivalents at beginning of period	663,163		663,163
Cash and cash equivalents at end of period	$ 748,522	$	$ 748,522
Supplemental cash flow disclosures:			
Income taxes paid, net	$ 8,660		$ 8,660
Interest paid	$ 297		$ 297

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In the third quarter of fiscal 2006, the Company corrected the classification of its Variable Rate Demand Notes with reset dates of 90 days or less, moving them from cash equivalents to short-term investments on the Consolidated Balance Sheets. All Balance Sheets in these consolidated financial statements present Variable Rate Demand Notes in marketable securities.

Also, as a result of these changes, purchases and sales of Variable Rate Demand Notes are now presented as investing activities, rather than as changes in cash and cash equivalents. The impact of this change on the Consolidated Statement of Cash Flows was as follows:

	Three months ended September 30, 2005	
(in thousands)	As originally reported	As restated
Cash used for purchase of available-for-sale securities	$ (950,852)	$ (1,236,258)
Proceeds from sale of available-for-sale securities	$ 884,090	$ 1,260,882
Proceeds from maturity of available-for-sale securities	$ 58,336	$ 63,036
Net cash (used in) provided by investing activities	$ (26,475)	$ 69,611

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NOTE 3 BALANCE SHEET COMPONENTS

(in thousands)	September 30, 2006	June 30, 2006
Cash equivalents and marketable securities		
U.S. Treasuries	$ 13,989	$ 25,908
U.S. Government agency securities	404,807	353,567
Municipal bonds	957,682	1,001,073
Corporate debt securities	4,012	
Corporate equity securities	358	362
Money market, bank deposits and other	864,666	804,017
	2,245,514	2,184,927
Less: Cash equivalents	1,019,700	988,322

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NET CASH USED IN INVESTING ACTIVITIES	(4,036)	(5,388)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of Long-term Debt	(828)	(723)
Proceeds from Issuance of Long-term Debt	7	10,000
Net Short-term Bank Borrowings	800	(5,450)
Deferred Debt Issuance Expense	(19)	(1)
Repurchase of Preferred Stock	(9)	-
Proceeds from Issuance of Common Stock	386	600
Payment of Common Dividends	(2,842)	(2,436)
Payment of Preferred Dividends	(52)	(52)
Construction Advances and Contributions-Net	(122)	83
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(2,679)	2,021
NET CHANGES IN CASH AND CASH EQUIVALENTS	1,343	2,560
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,453	4,278
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$3,796	$ 6,838
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:		
Utility Plant received as Construction Advances and Contributions	$508	$ 146
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for:		
Interest	$2,088	$ 2,490
Interest Capitalized	$62	$ 113
Income Taxes	$603	$ 19

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)
(In thousands)

	March 31, 2011	December 31, 2010
Common Stock, No Par Value		
Shares Authorized - 40,000		
Shares Outstanding -2011 - 15,587		
2010 - 15,566	$ 140,002	$ 139,534
Retained Earnings	33,481	33,745
TOTAL COMMON EQUITY	$ 173,483	$ 173,279
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	80	89
Shares Outstanding, $4.75 Series - 10	1,000	1,000
TOTAL PREFERRED STOCK	$ 3,353	$ 3,362
Long-term Debt:		
8.05%, Amortizing Secured Note, due December 20, 2021	$ 2,423	$ 2,456
6.25%, Amortizing Secured Note, due May 19, 2028	7,210	7,315
6.44%, Amortizing Secured Note, due August 25, 2030	5,437	5,507
6.46%, Amortizing Secured Note, due September 19, 2031	5,717	5,787
4.22%, State Revolving Trust Note, due December 31, 2022	585	585
3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025	3,639	3,655
3.49%, State Revolving Trust Note, due January 25, 2027	649	664
4.03%, State Revolving Trust Note, due December 1, 2026	865	865
4.00% to 5.00%, State Revolving Trust Bond, due September 1, 2021	522	522
0.00%, State Revolving Fund Bond, due September 1, 2021	389	397
3.64%, State Revolving Trust Note, due July 1, 2028	380	387
3.64%, State Revolving Trust Note, due January 1, 2028	127	130
3.45%, State Revolving Trust Note, due August 1, 2031	24	17
6.59%, Amortizing Secured Note, due April 20, 2029	6,307	6,395
7.05%, Amortizing Secured Note, due January 20, 2030	4,708	4,771
5.69%, Amortizing Secured Note, due January 20, 2030	9,660	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	422	430
4.25% to 4.63%, Series Y, due September 1, 2018	590	590
0.00%, Series Z, due September 1, 2019	987	1,007
5.25% to 5.75%, Series AA, due September 1, 2019	1,440	1,440
0.00%, Series BB, due September 1, 2021	1,303	1,328
4.00% to 5.00%, Series CC, due September 1, 2021	1,680	1,680
5.10%, Series DD, due January 1, 2032	6,000	6,000
0.00%, Series EE, due August 1, 2023	5,125	5,224
3.00% to 5.50%, Series FF, due August 1, 2024	6,555	6,555
0.00%, Series GG, due August 1, 2026	1,418	1,440
4.00% to 5.00%, Series HH, due August 1, 2026	1,715	1,715
0.00%, Series II, due August 1, 2024	1,215	1,239
3.40% to 5.00%, Series JJ, due August 1, 2027	1,625	1,625
0.00%, Series KK, due August 1, 2028	1,590	1,616
5.00% to 5.50%, Series LL, due August 1, 2028	1,695	1,695
0.00%, Series MM, due August 1, 2030	1,968	1,968
3.00% to 4.375%, Series NN, due August 1, 2030	1,985	1,985
SUBTOTAL LONG-TERM DEBT	137,455	138,276
Less: Current Portion of Long-term Debt	(4,443)	(4,432)
TOTAL LONG-TERM DEBT	$ 133,012	$ 133,844

See Notes to Condensed Consolidated Financial Statements.

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MIDDLESEX WATER COMPANY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation and Recent Matters

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), 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.

The consolidated notes within the 2010 Annual Report on Form 10-K (the 2010 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, 2011 and the results of operations and cash flows for the three month periods ended March 31, 2011 and 2010. Information included in the Condensed Consolidated Balance Sheet as of December 31, 2010, has been derived from the Company's audited financial statements for the year ended December 31, 2010 included in the 2010 Form 10-K.

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

Recent Accounting Guidance
In the first quarter of 2011, there was no new adopted or proposed accounting guidance that could have a material impact on the Company's financial statements.

Note 2 – Rate Matters

In January 2011, Middlesex filed an application with the New Jersey Board of Public Utilities (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 (NJWSA) 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.

A Distribution System Improvement Charge (DSIC) is a Delaware Public Service Commission (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. Effective January 1, 2011, Tidewater's DEPSC approved DSIC was increased from 1.07% to 1.34%.

In April 2011, Southern Shores reached an agreement with its customers for a phased-in rate increase. This increase was necessitated by capital investment in the upgrade and renovation of Southern Shores' primary water treatment facilities, as well as by increased operating costs. Under the terms of the agreement, which expires on June 30, 2020, Southern Shores will increase rates on May 1, 2011, January 1, 2012, and each successive January 1st through 2015, to generate approximately $0.1 million of additional revenue on an annual basis with each increase. Thereafter, rate increases, if any, cannot exceed the lesser of the regional Consumer Price Index or 3%.

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Note 3 – Capitalization

Common Stock
During the three months ended March 31, 2011, there were 21,104 common shares (approximately $0.4 million) issued under the Company's Amended and Restated Dividend Reinvestment and Common Stock Purchase Plan (DRP).

Preferred Stock
In February 2011, the Company repurchased 93 shares of its $7.00 Series, nonredeemable cumulative preferred stock at par value for approximately $9 thousand.

Long-term Debt
In March 2011, Tidewater closed on a $2.8 million loan with the Delaware State Revolving Fund (SRF) program which allows, but does not obligate, Tidewater to draw against a General Obligation Note for a specific project no later than March 31, 2012. The interest rate on any draw will be set at 3.75% with a final maturity of July 1, 2031 on the amount actually borrowed. As of March 31, 2011, Tidewater had not drawn against this loan.

In March 2011, Southern Shores closed on a $1.6 million loan with the Delaware SRF program, which allows, but does not obligate, Southern Shores to draw against a General Obligation Note for a specific project no later than July 31, 2011. The interest rate on any draw will be set at 3.75% with a final maturity of November 30, 2030 on the amount actually borrowed. As of March 31, 2011, Southern Shores had not drawn against this loan.

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 condensed 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 market value of the Company's bonds were as follows:

	(Thousands of Dollars)			
	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
First Mortgage Bonds	$88,814	$85,376	$89,037	$85,405
SRF Bonds	$913	$926	$919	$937

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 $47.7 million at March 31, 2011 and $48.3 million at December 31, 2010. Customer advances for construction have a carrying amount of $21.1 million at March 31, 2011 and $21.3 million at December 31, 2010. 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.

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Note 4 – Earnings Per Share

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

	(In Thousands Except per Share Amounts) Three Months Ended March 31,			
Basic:	2011	Shares	2010	Shares
Net Income	$2,630	15,576	$1,560	13,538
Preferred Dividend	(52)		(52)	
Earnings Applicable to Common Stock	$2,578	15,576	$1,508	13,538
Basic EPS	$0.17		$0.11	
Diluted:				
Earnings Applicable to Common Stock	$2,578	15,576	$1,508	13,538
$7.00 Series Preferred Dividend	24	167	24	167
$8.00 Series Preferred Dividend	14	96	14	96
Adjusted Earnings Applicable to Common Stock	$2,616	15,839	$1,546	13,801
Diluted EPS	$0.17		$0.11	

Note 5 – Business Segment Data

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

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	(In Thousands) Three Months Ended March 31,	
Operations by Segments:	2011	2010
Revenues:		
Regulated	$ 21,236	$ 19,102
Non – Regulated	2,841	2,626
Inter-segment Elimination	(81)	(83)
Consolidated Revenues	$ 23,996	$ 21,645
Operating Income:		
Regulated	$ 4,335	$ 2,830
Non – Regulated	433	458
Consolidated Operating Income	$ 4,768	$ 3,288
Net Income:		
Regulated	$ 2,373	$ 1,266
Non – Regulated	257	294
Consolidated Net Income	$ 2,630	$ 1,560
Capital Expenditures:		
Regulated	$ 4,832	$ 5,410
Non – Regulated	56	39
Total Capital Expenditures	$ 4,888	$ 5,449

	As of March 31, 2011	As of December 31, 2010
Assets:		
Regulated	$ 487,170	$ 486,918
Non – Regulated	9,018	8,116
Inter-segment Elimination	(6,158)	(5,849)
Consolidated Assets	$ 490,030	$ 489,185

Note 6 – Short-term Borrowings

As of March 31, 2011, the Company has established lines of credit aggregating $58.0 million. At March 31, 2011, the outstanding borrowings under these credit lines were $17.8 million at a weighted average interest rate of 1.5%.

The weighted average daily amounts of borrowings outstanding under the Company’s credit lines and the weighted average interest rates on those amounts were $17.3 million and $41.7 million at 1.60% and 1.49% for the three months ended March 31, 2011 and 2010, respectively.

The maturity dates for the $17.8 million outstanding as of March 31, 2011 are all in April 2011.

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

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Note 7 – Commitments and Contingent Liabilities

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.

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:

	(In Thousands) Three Months Ended March 31,	
	2011	2010
Purchased Water		
Treated	$ 640	$ 719
Untreated	606	612
Total Costs	$ 1,246	$ 1,331

Construction
The Company expects to spend approximately $22.9 million on its construction program in 2011. 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.

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Note 8 – Employee Benefit Plans

Pension Benefits

The Company's Pension Plan covers substantially all employees hired prior to March 31, 2007. Employees hired after March 31, 2007 are not eligible to participate in this plan, but do participate in a defined contribution plan that provides an annual contribution into a self-directed retirement account at the discretion of the Company, based upon a percentage of the participants' compensation. In order to be eligible for contribution, the participating employee must be employed by the Company on December 31st of the year to which the award relates. For each of the three months ended March 31, 2011 and 2010, the Company made Pension Plan cash contributions of $0.4 million. The Company expects to make additional Pension Plan cash contributions of approximately $2.3 million over the remainder of the current year. The Company also maintains an unfunded supplemental retirement benefit plan for certain active and retired Company Officers and currently pays $0.3 million in annual benefits to the retired participants.

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. For each of the three months ended March 31, 2011 and 2010, the Company made Other Benefits Plan cash contributions of $0.5 million. The Company expects to make additional Other Benefits Plan cash contributions of approximately $2.3 million over the remainder of the current year.

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

	(In Thousands)			
	Pension Benefits		Other Benefits	
	Three Months Ended March 31,			
	2011	2010	2011	2010
Service Cost	$394	$349	$326	$256
Interest Cost	565	557	401	334
Expected Return on Assets	(571)	(505)	(256)	(190)
Amortization of Unrecognized Losses	141	127	219	133
Amortization of Unrecognized Prior Service Cost	2	2	-	-
Amortization of Transition Obligation	-	-	34	34
Net Periodic Benefit Cost	$531	$530	$724	$567

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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 Middlesex Water Company (Middlesex or the Company) included elsewhere herein and with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Forward-Looking Statements

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

- statements as to expected financial condition, performance, prospects and earnings of the Company;
- statements regarding strategic plans for growth;
- statements regarding the amount and timing of rate increases and other regulatory matters, 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 (PS&I) charges into viable projects; and
- other factors discussed elsewhere in this quarterly report.

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

For an additional discussion of factors that may affect the Company's business and results of operations, see Item 1A. - Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Overview

Middlesex has operated as a water utility in New Jersey since 1897, in Delaware through our wholly-owned subsidiary, Tidewater Utilities, Inc. (Tidewater), since 1992 and in Pennsylvania through our wholly-owned subsidiary, Twin Lakes Utilities, Inc. (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 Utility Services Affiliates, Inc. (USA), Utility Services Affiliates (Perth Amboy), Inc. (USA-PA) and White Marsh Environmental Systems, Inc. (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 several municipalities in central New Jersey. 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 system provides water services in Downe Township, New Jersey. Our other New Jersey subsidiaries, Pinelands Water Company and Pinelands Wastewater Company (collectively, Pinelands), 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 Water Company, LLC (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 Tidewater Environmental Services, Inc. (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.

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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

In January 2011, Middlesex filed an application with the New Jersey Board of Public Utilities (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.

A Distribution System Improvement Charge (DSIC) is a Delaware Public Service Commission (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. Effective January 1, 2011, Tidewater’s DEPSC approved DSIC was increased from 1.07% to 1.34%.

In March 2011, Tidewater closed on a $2.8 million loan with the Delaware State Revolving Fund (SRF) program which allows, but does not obligate, Tidewater to draw against a General Obligation Note for a specific project no later than March 31, 2012. The interest rate on any draw will be set at 3.75% with a final maturity of July 1, 2031 on the amount actually borrowed. As of March 31, 2011, Tidewater had not drawn against this loan.

In March 2011, Southern Shores closed on a $1.6 million loan with the Delaware SRF program which allows, but does not obligate, Southern Shores to draw against a General Obligation Note for a specific project no later than July 31, 2011. The interest rate on any draw will be set at 3.75% with a final maturity of November 30, 2030 on the amount actually borrowed. As of March 31, 2011, Southern Shores had not drawn against this loan.

In April 2011, Southern Shores reached an agreement with its customers for a phased-in rate increase. This increase was necessitated by capital investment in the upgrade and renovation of Southern Shores’ primary water treatment facilities, as well as by increased operating costs. Under the terms of the agreement, which expires June 30, 2020, Southern Shores will increase rates on May 1, 2011, January 1, 2012, and each successive January 1st through 2015, to generate approximately $0.1 million of additional revenue on an annual basis with each increase. Thereafter, rate increases, if any, cannot exceed the lesser of the regional Consumer Price Index or 3%.

Outlook

Rate relief and favorable weather patterns bolstered our consolidated revenues in 2010. Even though revenues for 2011 are expected to 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 as a result of the extended hot, dry period throughout our service territories in 2010 will continue in 2011.

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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 customer consumption in Middlesex's March 2010 rate increase.

As discussed above, revenues and earnings are influenced by weather. Changes in water 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 execute plans to streamline operations and reduce operating costs on an on-going basis.

Middlesex and several of its subsidiaries are expected to file for base-rate increases in 2011. There can be no assurances however, that the regulators of Middlesex or its subsidiaries will approve any such 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 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 final 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. This is expected to partially mitigate retirement plan benefit expenses and retirement plan cash contributions in 2011.

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.

Operating Results by Segment

The discussion of the Company's operating results is on a consolidated basis and includes significant factors by subsidiary. The Company has two operating segments, Regulated and Non-Regulated.

The segments in the tables included below consist of the following companies: Regulated-Middlesex, Tidewater, Pinelands, Southern Shores, TESI and Twin Lakes; Non-Regulated- USA, USA-PA, and White Marsh.

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Results of Operations – Three Months Ended March 31, 2011

	(In Thousands) Three Months Ended March 31,					
	2011			2010		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	$ 21,208	$ 2,788	$ 23,996	$ 19,019	$ 2,626	$ 21,645
Operations and maintenance expenses	11,780	2,251	14,031	11,539	2,055	13,594
Depreciation expense	2,375	37	2,412	2,163	41	2,204
Other taxes	2,718	67	2,785	2,487	72	2,559
Operating income	4,335	433	4,768	2,830	458	3,288
Other income, net	246	56	302	373	74	447
Interest expense	1,188	26	1,214	1,383	41	1,424
Income taxes	1,020	206	1,226	554	197	751
Net income	$ 2,373	$ 257	$ 2,630	$ 1,266	$ 294	$ 1,560

Operating Revenues

Operating revenues for the three months ended March 31, 2011 increased $2.4 million from the same period in 2010. This increase was primarily related to the following factors:

- Middlesex System revenues increased $2.0 million, which represents the full effect of the 13.5% rate increase from March 17th of 2010;
- Customer growth in our Tidewater System increased revenues by $0.1 million;
- Additional services provided by White Marsh under our non-regulated contracts increased revenues by $0.1 million; and
- Revenues from all other subsidiaries increased $0.2 million.

Operation and Maintenance Expense

Operation and maintenance expenses for the three months ended March 31, 2011 increased $0.4 million from the same period in 2010. This increase was primarily related to the following factors:

- Labor costs increased $0.2 million primarily due to higher average labor rates from annual wage increases and lower capitalized labor;
- Employee healthcare costs and postretirement benefit plan expenses increased $0.2 million;
- Increased net costs of $0.2 million from the implementation of a company wide information technology platform;
- Chemical and residuals disposal expenses decreased $0.2 million, primarily due to increased costs in March 2010 resulting from abnormally high amounts of rainfall, which caused decreased quality of water;
- Costs associated with main breaks decreased $0.2 million, as we experienced less severe and a lower number of main breaks in the first quarter of 2011 as compared to the first quarter of 2010; and
- All other operating and maintenance expense categories increased $0.2 million.

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Depreciation

Depreciation expense for the three months ended March 31, 2011 increased $0.2 million from the same period in 2010 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the three months ended March 31, 2011 increased $0.2 million from the same period in 2010, primarily due to increased taxes on higher taxable gross revenues.

Interest Charges

Interest charges for the three months ended March 31, 2011 decreased $0.2 million from the same period in 2010, primarily due to lower average short term debt outstanding in the first quarter of 2011 as compared to the first quarter of 2010.

Other Income, net

Other Income, net for the three months ended March 31, 2011 decreased $0.1 million from the same period in 2010, primarily due to decreased Allowance for Funds Used During Construction from lower capitalized interest resulting from lower average construction work in progress balances in the first quarter of 2011 as compared to the first quarter of 2010.

Income Taxes

Income taxes for the three months ended March 31, 2011 increased $0.5 million from the same period in 2010, due to increased operating income in 2011 as compared to 2010.

Net Income and Earnings Per Share

Net income for the three months ended March 31, 2011 increased $1.1 million from the same period in 2010. Basic and diluted earnings per share increased to $0.17 for the three months ended March 31, 2011 as compared to $0.11 for the three months ended March 31, 2010.

Liquidity and Capital Resources

Operating Cash Flows

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 three months ended March 31, 2011, cash flows from operating activities increased $2.1 million to $8.1 million. Increased earnings and decreased accounts receivable were the primary reasons for the increase in cash flow. The $8.1 million of net cash flow from operations enabled us to fund 100% of our utility plant expenditures internally for the period.

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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 Amended and Restated Dividend Reinvestment and Common Stock Purchase Plan (DRP) and common stock offerings. See below for a more detailed discussion regarding the funding of our capital program.

The capital investment program for 2011 is currently estimated to be $22.9 million. Through March 31, 2011, we have expended $4.9 million and expect to incur approximately $18.0 million for capital projects for the remainder of 2011.

We currently project that we may be required to expend approximately $43 million for capital projects in 2012 and 2013. The exact amount is dependent on customer growth, residential housing sales, project scheduling and refinement of engineering estimates for certain capital projects.

To fund our capital program for the remainder of 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 SRF loans (currently, $4.7 million) and Delaware SRF loans (currently, $5.5 million). 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 March 31, 2011, the outstanding borrowings under these credit lines were $17.8 million.

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 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.

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Item 4. Controls and Procedures

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities and Exchange Act of 1934 (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 were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

The information about risk factors 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, 2010.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Removed and Reserved

Item 5. Other Information

None.

Item 6. Exhibits

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

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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
(Principal Accounting Officer)

Date: May 6, 2011

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