

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**  
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FILER

**MIDDLESEX WATER CO**

CIK: **66004** | IRS No.: **221114430** | State of Incorporation: **NJ** | Fiscal Year End: **1231**  
Type: **10-K** | Act: **34** | File No.: **000-00422** | Film No.: **99574254**  
SIC: **4941** Water supply

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ISELIN NJ 08830

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year ended December 31, 1998  
-----

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

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

New Jersey  
(State or other jurisdiction of  
incorporation or organization)

22-1114430  
(I.R.S. Employer  
Identification No.)

1500 Ronson Road, Iselin, New Jersey  
-----  
(Address of principal executive offices)

08830-3020  
-----  
(Zip Code)

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

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

Title of each Class -----	Name of each exchange on which registered -----
None	None

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

Common Stock, No par Value  
-----  
(Title of Class)

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant at March 19, 1999 was \$122,103,067 based on the closing market price of \$24.875 per share.

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

Class -----	Outstanding at March 19, 1999 -----
Common Stock, No par Value -----	4,908,666

Documents Incorporated by Reference

Proxy Statement to be filed in connection with the Registrant's Annual Meeting of Shareholders to be held on May 26, 1999 as to Part III.

MIDDLESEX WATER COMPANY  
FORM 10-K  
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PART I

- Item 1. Business  
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Middlesex Water Company was incorporated as a water utility company in 1897 and operates water utility systems in central and southern New Jersey and in Delaware as well as a wastewater utility in southern New Jersey. The water utility system in central New Jersey, which we call the "Middlesex System," produced 87.8% of the Company's 1998 revenues. The Middlesex System treats, stores and distributes water for residential, commercial, industrial and fire prevention purposes.

Our Middlesex System provides water services to approximately 54,000 retail customers, primarily in eastern Middlesex County, New Jersey and provides water on a contracted basis to the Township of Edison, the Boroughs of Highland Park and Sayreville, the City of South Amboy and both the Old Bridge and the Marlboro Township Municipal Utilities Authorities. Under a special contract, the Middlesex System also provides water treatment and pumping services to the Township of East Brunswick.

The Middlesex System's retail customers are located in an area of approximately 55 square miles in Woodbridge Township, the Boroughs of Metuchen and Carteret, portions of Edison Township and the Borough of South Plainfield in Middlesex County and a portion of the Township of Clark in Union County. The retail customers include a mix of residential customers, large industrial concerns and commercial and light industrial facilities. These retail customers are located in generally well developed areas of central New Jersey. The contract customers of the Middlesex System comprise an area of approximately 141 square miles with a population of approximately 267,000. Contract sales to Edison, Sayreville, Old Bridge and Marlboro are supplemental to the existing water systems of these customers. The State of New Jersey in the mid-1980's approved plans to increase available surface water supply to these and other municipalities in the South River Basin area of the State through contracts with water suppliers outside the South River Basin. The State saw this as a way to reduce the use of ground water and depletion of aquifers. Our long-term contracts to pump treated surface water to East Brunswick, Marlboro, Old Bridge, Sayreville and South Amboy are consistent with the State approved plan.

We have five wholly-owned subsidiaries:

- o Tidewater Utilities, Inc. ("Tidewater"), together with Tidewater's

wholly-owned subsidiary, Public Water Supply Company, Inc. ("Public"), provide water services to 11,300 retail customers for residential, commercial and fire protection purposes in over 100 separate community water systems in Kent, Sussex and New Castle Counties, Delaware. We refer to our Delaware operations as the "Tidewater Systems". The Tidewater Systems produced approximately 8.8% of our total revenues in 1998. Tidewater has another wholly-owned subsidiary, White Marsh Environmental Systems, Inc., which owns the office building that Tidewater uses as its business office.

- o Pinelands Water Company services 2,200 residential customers in Burlington County, New Jersey. We refer to this water utility as the "Pinelands System." The Pinelands System produced approximately 0.8% of our total revenues in 1998.

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- o Pinelands Wastewater Company services approximately 2,200 primarily residential retail customers and, under contract, one municipal wastewater system in Burlington County, New Jersey with about 200 residential customers. We refer to this wastewater utility as the "Pinelands Wastewater System." The Pinelands Wastewater System produced approximately 1.5% of our total revenues in 1998.
- o Utility Service Affiliates, Inc., along with Middlesex Water Company, entered into a five-year contract with the City of South Amboy, New Jersey to operate and maintain the city's 2,600 customer water system in May 1995. The contract is renewable for up to three additional five-year periods. We refer to this subsidiary as "USA." USA produced approximately 1.1% of our total revenues in 1998. Middlesex Water Company has negotiated the acquisition, subject to Board of Public Utilities (BPU) approval, of a franchise to provide water service and to install water system facilities in South Amboy. Assuming BPU approval is obtained, Middlesex Water Company will operate and maintain the system on a retail basis.
- o Utility Service Affiliates (Perth Amboy) Inc., which we refer to as "USA-PA," along with Middlesex Water Company, signed an agreement on December 8, 1998 with the City of Perth Amboy (the City) and the Middlesex County Improvement Authority (MCIA). Under that agreement, USA-PA will operate and maintain the City's water system and the wastewater system for 20 years. USA-PA will be paid a fixed fee and a variable fee based on increased system billings. Fixed fee payments to USA-PA in the agreement rise from \$6.4 million in the first year to \$9.7 million by year 20. The agreement also requires USA-PA to lease from the City all of the City's employees who currently work on the City's water system or wastewater system. In connection with the agreement, the City of Perth Amboy, through the MCIA issued \$68.0 million in three series of bonds. One of those series of bonds, in principal amount of \$26.3 million, is guaranteed by the Company. The City guaranteed the two other series of bonds. The Company also guaranteed the performance of our subsidiary, USA-PA. USA-PA entered into a subcontract with a sewer contracting firm for the operation and maintenance of the City's wastewater system. City employees who now work on the City's wastewater system are subleased by the subcontractor from USA-PA. Of the \$6.4 million fixed fee payable to USA-PA in the first year of the agreement, \$3.0 million will be payable to the subcontractor. The variable fee payable by USA-PA to the subcontractor would be based on a portion of the increased billings attributable to the wastewater system. USA-PA began to operate and maintain the City's systems on January 1, 1999.

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Financial Information

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Consolidated operating revenues and operating income relating primarily to operating water utilities are as follows:

<TABLE>  
<CAPTION>

	(000's)		
	Years Ended December 31,		
	-----		
	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Operating Revenues .....	\$43,058	\$40,294	\$38,025

Operating Income .....	=====	=====	=====
	\$ 9,149	\$ 8,768	\$ 8,222
	=====	=====	=====

</TABLE>

Operating revenues were derived from the following sources:

<TABLE>  
<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Residential .....	41.4%	40.3%	39.7%
Commercial .....	11.4	11.4	11.4
Industrial .....	15.8	16.5	17.4
Fire Protection .....	11.5	11.6	12.2
Contract Sales .....	17.5	18.3	17.8
Other .....	2.4	1.9	1.5
	-----	-----	-----
TOTAL .....	100.0%	100.0%	100.0%
	=====	=====	=====

</TABLE>

Water Supplies and Contracts  
-----

Our water utility plant consists of sources of supply, pumping, water treatment, transmission, distribution and general facilities located in New Jersey and Delaware. Our New Jersey and Delaware water supply systems are physically separate and are not interconnected. In addition, in New Jersey, the Pinelands System is not interconnected with the Middlesex System. In the opinion of management, we have adequate sources of water supply to meet the current and anticipated future service requirements of our present customers in New Jersey and Delaware.

Middlesex System:

Our Middlesex System obtains water from both surface sources and from wells which we call groundwater sources. In 1998, surface sources of water provided approximately 68.1% of the Middlesex System's water supply, groundwater from wells provided approximately 25.0% and the balance of 6.9% was purchased from Elizabethtown Water Company ("Elizabethtown"), a nonaffiliated water utility. Middlesex System's distribution storage facilities are used to supply water to its customers at times of peak demand, outages and emergencies.

The principal source of surface supply for the Middlesex System is the Delaware and Raritan Canal (D&R Canal), owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority ("NJWSA"). Under a multistate compact, the NJWSA is entitled to divert water from the Delaware River through the D&R Canal. This supply, together with water in the Round Valley and Spruce Run Reservoir System, provide a safe yield of 225 million gallons per day (mgd), which supplies our Middlesex System and other large water purveyors contractually regulated by the NJWSA. We have contracts with the NJWSA to divert a minimum of 20 mgd of untreated water from the D&R Canal. In addition, we have a one year agreement for an additional 5 mgd, renewed through April 30, 1999. We also have an agreement with Elizabethtown, effective through December 31, 2005, which provides for the minimum purchase of 3 mgd of treated water with provisions for additional purchases. This contract also allows us to purchase additional water from Elizabethtown on an emergency basis.

Our Middlesex System also derives water from groundwater sources equipped with electric motor driven deep well turbine type pumps. The Middlesex System has 32 wells, which provide an aggregate pump capacity of approximately 27 mgd.

The Middlesex System's groundwater sources are:

<TABLE>  
<CAPTION>

Middlesex System	No. of Wells	1998 Maximum Daily Pumpage (millions of gallons)	Pump Capacity (mgd)	Location
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Park Avenue	15	10.8	15.2	South Plainfield
Tingley Lane North	4	3.2	2.8	Edison
Tingley Lane South	5	2.9	2.6	Edison

Spring Lake	4	1.2	2.8	South Plainfield
Sprague Avenue #1	1	1.1	1.1	South Plainfield
Sprague Avenue #2	1	1.3	1.3	South Plainfield
Maple Avenue	1	1.0	0.9	South Plainfield
Thermal Well	1	0.2	0.2	Edison
	--			
Total	32			

</TABLE>

Tidewater Systems:

Water supply to Delaware customers is derived from the Tidewater Systems' 119 wells which provided overall system delivery of 523 million gallons during 1998. The Tidewater Systems do not have a central treatment facility. Several of its water systems in Sussex County and New Castle County, Delaware have interconnected transmission systems. Treatment is by chlorination and, in some cases, pH correction and filtration.

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Pinelands System:

The Pinelands System obtains its water supply from four wells drilled into the Mt. Laurel aquifer. The wells are equipped with three electric motor driven deep well turbine pumps and one is equipped with a electric motor driven submersible pump. Disinfection is done at individual well sites, which are located in Southampton Township, New Jersey. The wells have an aggregate pump capacity of 2.2 mgd. In 1998, the maximum daily pumpage was 2.1 million gallons.

Pinelands Wastewater System:

The Pinelands Wastewater System discharges into the South Branch of the Rancocas Creek through a tertiary treatment plant that provides clarification, sedimentation, filtration and disinfection. The total capacity of the plant is 0.5 mgd. Current average flow is 0.3 mgd. Pinelands has a current valid discharge permit issued by the New Jersey Department of Environmental Protection ("DEP").

Competition

-----

Our business in our franchised service areas is substantially free from direct competition with other public utilities, municipalities and other entities. However, our ability to provide some contract water supply and wastewater services and operations and maintenance services is subject to competition from other public utilities, municipalities and other entities. Although the Tidewater System has been granted an exclusive franchise for each of its existing community water systems, its ability to expand service areas has been affected by the Delaware Department of Natural Resources and Environmental Control (DNREC) awarding franchises to other regulated water purveyors, including franchises granted to community water systems around and in between the Tidewater Systems service areas.

Regulation

-----

We are subject to regulation as to our rates, services and other matters by the states of New Jersey and Delaware with respect to utility service within those states and with respect to environmental and water quality matters. We are also subject to environmental and water quality regulation by the United States Environmental Protection Agency ("EPA").

Regulation of Rates and Services

-----

New Jersey operations are subject to regulation by the BPU. Similarly, our Delaware operations are subject to regulation by the Public Service Commission (PSC). These regulatory authorities have jurisdiction with respect to rates, service, accounting procedures, the issuance of securities and other matters. In determining our rates, the BPU and the PSC consider the income, expenses, rate base of property used and useful in providing service to the public and a fair rate of return on that property. Rate determinations by the BPU do not guarantee particular rates of return to the Company for our New Jersey operations nor do rate determinations by the PSC guarantee particular rates of return for our Delaware operations. Thus, we may not achieve the rates of return allowed by the BPU or the PSC.

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We filed a petition with the BPU on September 17, 1998 for a 21.9% rate increase to include the \$38 million costs of the CJO Plant Project in our rate base and to recover certain other of our costs which have increased. The Company anticipates that a BPU determination with respect to this petition may not be made until the summer of 1999. There can be no assurance that the rate increase will be granted or, if granted, that it will be in the amount we requested.

We anticipate that we may file with the PSC during 1999 for a rate increase for the Tidewater Systems, which may also include a request to combine Tidewater and Public into a single entity.

Water Quality and Environmental Regulations  
-----

Both the EPA and the DEP regulate our operations in New Jersey with respect to water supply, treatment and distribution systems and the quality of the water, as do the EPA, the DNREC, and the Delaware Department of Health with respect to operations in Delaware.

Federal, Delaware and New Jersey regulations adopted over the past five years relating to water quality require expanded types of testing by the Company to insure that its water meets State and Federal water quality requirements. In addition, environmental regulatory agencies are reviewing current regulations governing the limits of certain organic compounds found in the water as byproducts of treatment. The Company believes the Carl J. Olsen Water Treatment Plant (CJO Plant) upgrade and expansion will allow the Company to be in a stronger position to meet any such future regulations with regard to its Middlesex System. Regular testing of our water demonstrates that we are in compliance with existing Federal, New Jersey and Delaware primary water quality standards.

The DEP and the Delaware Department of Health monitor the activities of the Company and review the results of water quality tests performed by the Company for adherence to applicable regulations. Other regulations applicable to the Company include the Lead and Copper Rule, the maximum contaminant levels established for various volatile organic compounds, the Federal Surface Water Treatment Rule, and the Total Coliform Rule.

Employees  
-----

As of December 31, 1998, we had a total of 144 employees in New Jersey, and a total of 30 employees in Delaware. No employees are represented by a union. Management considers its relations with its employees to be satisfactory. Wages and benefits are reviewed annually and are considered competitive within the industry. As part of USA-PA's agreement with the City of Perth Amboy, 40 employees currently working in the City's water and wastewater systems are leased by USA-PA. The City employees are represented by several unions and are subject to contract negotiations with the City.

Executive Officers of Middlesex Water Company  
-----

Walter J. Brady - age 57; Senior Vice President-Administration; term expires May 1999. Mr. Brady, who joined the Company in 1962, was elected Assistant Secretary-Assistant Treasurer in 1979, Assistant Vice President in 1982, Vice President-Human Resources in 1987, Vice President-Administration in 1989 and Senior Vice President of Administration in 1998. He serves as Plan Administrator of the Pension Plan. He is a Director of Tidewater Utilities, Inc., White Marsh Environmental Systems, Inc., Pinelands Water Company, Pinelands Wastewater Company and Utility Service Affiliates, Inc., and an Officer and Director of Utility Service Affiliates (Perth Amboy) Inc.

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A. Bruce O'Connor - age 40; Vice President and Controller; term expires May 1999. Mr. O'Connor, a Certified Public Accountant, joined the Company in 1990 as Assistant Controller and was elected Controller in 1992 and Vice President in 1995. He assumed the designated title of Vice President and Controller and Chief Financial Officer in May 1996. He is responsible for financial reporting, customer service, rate cases, cash management and financings. He was formerly employed by Deloitte & Touche LLP, a certified public accounting firm from 1984 to 1990. He is an Officer and Director of Tidewater Utilities, Inc., Public Water Supply Company, Inc., Pinelands Water Company, Pinelands Wastewater Company and an Officer of White Marsh Environmental Systems, Inc., Utility Service Affiliates, Inc. and Utility Service Affiliates (Perth Amboy) Inc.

Marion F. Reynolds - age 59; Vice President, Secretary and Treasurer; term expires May 1999. Ms. Reynolds, who had been Secretary-Treasurer since 1987 was elected Vice President, Secretary and Treasurer in 1993. Prior to her election she had been employed by Public Service Electric and Gas Company, Newark, New Jersey since 1958, and was elected Assistant Corporate Secretary in 1976. She is an Officer of Tidewater Utilities, Inc., Utility Service Affiliates (Perth Amboy) Inc., Pinelands Water Company and Pinelands Wastewater Company and a Director of Utility Service Affiliates, Inc.

Richard A. Russo - age 53; Executive Vice President; term expires May 1999. Mr. Russo, who had been Vice President-Operations since 1989 was elected Executive Vice President in 1995 and is responsible for engineering, water production, water treatment and distribution maintenance. He was formerly employed by Trenton Water Works as General Superintendent and Chief Engineer since 1979. He is President and Director of Tidewater Utilities, Inc., White Marsh

Environmental Systems, Inc., Public Water Supply Company, Inc., Pinelands Water Company and Pinelands Wastewater Company. He is also Executive Vice President and Director of Utility Service Affiliates, Inc. and Utility Service Affiliates (Perth Amboy) Inc.

Dennis G. Sullivan - age 57; Vice President and General Counsel, Assistant Secretary-Assistant Treasurer; term expires May 1999. Mr. Sullivan was hired in 1984 as Corporate Attorney, responsible for general corporate internal legal matters. He was elected Assistant Secretary-Assistant Treasurer in 1988 and Vice President and General Counsel in 1990. He was employed in a private law practice from 1981 to 1984 as a staff attorney. He is an Officer and Director of Tidewater Utilities Inc., White Marsh Environmental Systems, Inc., Public Water Supply Company, Inc., Utility Service Affiliates, Inc., and Utility Service Affiliates (Perth Amboy) Inc. and a Director of Pinelands Water Company and Pinelands Wastewater Company.

J. Richard Tompkins - age 60; Chairman of the Board and President; term expires May 1999. Mr. Tompkins was elected President of the Company in 1981 and was elected Chairman of the Board in 1990. In 1979 he was employed by Associated Utility Services, an independent utility consulting firm in New Jersey, as Vice President. From 1962 to 1979 he was employed by Buck, Seifert & Jost, Incorporated, consulting engineers in New Jersey and was appointed Vice President in 1973. He is Chairman and Director of Tidewater Utilities, Inc., White Marsh Environmental Systems, Inc., Pinelands Water Company and Pinelands Wastewater Company; Director of Public Water Supply Company, Inc. and Director and President of Utility Service Affiliates, Inc. and Utility Service Affiliates (Perth Amboy) Inc. He is also a Director of New Jersey Utilities Association and Raritan Bay Healthcare Foundation.

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Ronald F. Williams - age 50; Vice President-Operations; term expires May 1999. Mr. Williams was hired in March 1995 as Assistant Vice President-Operations, responsible for the Company's Engineering and Distribution Departments. He was elected Vice President-Operations in October 1995. He was formerly employed with the Garden State Water Company as President and Chief Executive Officer since 1991. He is an Officer and Director of Utility Service Affiliates, Inc., and Utility Service Affiliates (Perth Amboy) Inc.

Item 2. Properties  
-----

The water and wastewater utility properties of our systems consist of source of supply, pumping, water treatment, transmission and distribution, wastewater collection and treatment and general facilities.

Middlesex System:

The Middlesex System's principal source of surface supply is the D&R Canal owned by the State of New Jersey and operated as a water resource by the NJWSA.

Water is withdrawn from the D&R Canal at New Brunswick, New Jersey through our intake and pumping station located on State owned land bordering the Canal. It is transported through our 54 inch supply main for treatment and distribution at the CJO Plant. Facilities at the CJO Plant consist of source of supply, pumping, water treatment, transmission, storage, laboratory and general facilities. We monitor water quality at the CJO Plant, at each well field and throughout the distribution system to determine that federal and state water quality standards are met.

The design capacity of the intake and pumping station in New Brunswick, New Jersey, is 80 mgd. The four electric motor driven vertical turbine pumps presently installed have an aggregate design capacity of 65 mgd. The station is designed to permit its pumping capacity to be increased to 80 mgd by the installation of additional pumping units. The design capacity of our raw water supply main is 55 mgd. We also have a 58,600 foot transmission main; a long term lease agreement with the City of Perth Amboy for the use of a 38,800 foot transmission main; and a long term, nonexclusive "wheeling agreement" with the East Brunswick system, all used to transport water to several of our contract customers. The lease agreement with the City of Perth Amboy includes an option to purchase the transmission main at the end of the lease term.

The CJO Plant includes chemical storage and chemical feed equipment, dual rapid mixing basins, four reinforced concrete mechanical flocculation compartments, four underground reinforced concrete settling basins, eight rapid filters containing gravel, sand and anthracite for water treatment and a steel washwater tank. The firm design capacity of the CJO Plant is now 30 mgd (45 mgd maximum capacity). The main pumping station at the CJO Plant has a design capacity of 90 mgd. The four electric motor driven vertical turbine pumps presently installed have an aggregate capacity of 65 mgd.

In addition to the main pumping station at the CJO Plant, there is a 15 mgd auxiliary pumping station located in a separate building. It has a dedicated substation and emergency power supply provided by a diesel-driven generator. It



pumps from the 10 million gallon distribution storage reservoir directly into the distribution system.

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In November 1997 construction began on the upgrade, expansion and addition of facilities at the CJO Plant and related water intake station, which we refer to as "The Project." The Project includes the installation of new flash mixers and new chemical storage and feed facilities. The existing conventional sedimentation basins are being replaced by high rate upflow clarifiers that are intended to remove turbidity more effectively. The chlorine application point is being relocated from preclarification to postclarification. The existing sedimentation basins are to be used as chlorine contact basins. Four additional filters are being added to the CJO Plant, a new laboratory is being constructed, and a computerized Supervisory Control and Data Acquisition (SCADA) system is being added to monitor and control the CJO Plant and our water supply and distribution system in central New Jersey. Upgrades are also being made to the heating, ventilating, air conditioning and the electrical system at the CJO Plant and to the pumping equipment at our raw water pump station.

The Project will upgrade the CJO Plant to meet the new and anticipated regulatory changes concerning water quality, as well as increase capacity to meet peak-day demands. The firm capacity of the CJO Plant is being increased from about 30 mgd to 45 mgd (we define firm capacity as the capacity when the largest unit is out of service).

The Project also involves changes to the raw water pump station which delivers water from the D&R Canal to the CJO Plant, a distance of about one mile. The station capacity is being increased by replacing one existing pump with a larger pump. The firm capacity of the raw water pump station is being increased from about 35 mgd to 45 mgd. Functional completion of the Project (by which we mean the ability to produce water) is scheduled for June, 1999, with final completion set for October, 1999.

The total cost of the Project, including design, engineering and capitalized interest, will be approximately \$38 million. Of this amount, we expended \$7.9 million through March 31, 1998 from operations of our central New Jersey system. In March, 1998, we issued our 5.35% Series W Mortgage Bonds which provided an additional \$23 million. The remainder of the cost of the Project will be funded from proceeds of our December 1998 common stock offering.

We have a RENEW Program in the Middlesex System to clean and line with cement previously unlined cast iron mains. There are approximately 170 miles of unlined cast iron mains in the 670 mile Middlesex System. In 1999, we will clean and line approximately nine miles of unlined mains.

Middlesex System's storage facilities consist of a 10 mg reservoir at the CJO Plant, 5 mg and 2 mg reservoirs in Edison, a 5 mg reservoir in Carteret and a 2 mg reservoir at the Park Avenue Well Field.

We own the properties in New Jersey on which Middlesex System's 32 wells are located. We also own our headquarters complex at 1500 Ronson Road, Iselin, New Jersey, consisting of a 27,000 square foot, two story office building and an adjacent 16,500 square foot maintenance facility.

#### Tidewater Systems:

The Tidewater Systems' storage facilities include 21 ground level storage tanks with the following capacities: eleven 30,000 gallon tanks, five 25,000 gallon tanks, three 120,000 gallon tanks, one 135,000 gallon tank, one 82,000 gallon tank and one elevated storage tank with a capacity of 250,000 gallons.

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Our Delaware operations are managed from Tidewater's leased offices in Odessa, Delaware and from Public's leased offices in Millsboro, Delaware. Tidewater's office property, which is owned by its wholly-owned subsidiary, White Marsh Environmental Systems, Inc., consists of a 2,400 square foot building situated on a one (1) acre lot.

#### Pinelands System:

Pinelands Water Company owns well site properties which are located in Southampton Township, New Jersey. Pinelands Water storage facility is a 1.2 mg standpipe.

#### Pinelands Wastewater System:

Pinelands Wastewater Company owns a 12 acre site on which its 0.5 mgd capacity tertiary treatment plant is located.

#### Item 3. Legal Proceedings -----

A motel in our Middlesex service area originally filed claims against us in 1990 alleging financial losses due to improper water pressure and service and also seeking punitive damages. Subsequently in 1994, and again in 1997, the motel suffered outbreaks of legionella, resulting in the 1997 shutdown of the motel by the New Jersey Department of Health. The motel amended its claims to assert that we provided water containing the legionella bacteria. The motel is in bankruptcy. A bank creditor of the motel has joined in the motel's claim against us. We believe that the motel's claims are not supportable. Claims resulting from the death of a motel guest from legionella in 1997 and claims by two other patrons alleging illness as a result of their stay at the motel in 1997 have been brought against the motel and against us. We have substantial insurance coverage, which we believe will be sufficient for all claims in this matter other than for punitive damages. We do not believe the motel's claims for punitive damages will prevail. While the outcome of this case remains uncertain, we believe that the final resolution will not have a significant effect on our financial condition or results of operation.

A 1995 fire at a warehouse in our service territory resulted in multiple party claims brought forth in the Superior Court for Middlesex County, New Jersey, as well as, with the financial collapse of the principal tenant, in the Federal Bankruptcy Court. The claims in the State court action are for unspecified amounts but include claims against us for insufficient water pressure and supply. The Bankruptcy Court has stayed all claims against the tenant except, to the extent the tenant is insured, claims brought by us arising from claims made against us by other tenants and the landlord. Under New Jersey case law, we will not have financial responsibility to parties to the extent they receive payments under their own insurance policies. We do not know either the total amount of claims against us or how much of that amount will be covered by the parties' own insurance policies. Our counsel in the litigation advises us that the case is unlikely to be resolved rapidly. We believe we have substantial defenses to the claims against us, although we do not have insurance coverage for them.

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The Company has been notified of a potential claim of \$1.5 million involving the break of both a Company water line and an underground electric power cable in close proximity to it. The power cable contained both electric lines and a petroleum based insulating fluid. The Company is insured for damages except for damages resulting from pollution discharge. Causation and liability has not been established.

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

None.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder  
-----

Matters Price Range of Common Stock  
-----

The following table shows the range of closing prices for the Common Stock on the NASDAQ Stock Market for the calendar quarter indicated.

<TABLE>

<CAPTION>

1998 ----	High ----	Low ---	Dividend -----
<S>	<C>	<C>	<C>
First Quarter	\$22 1/2	\$19 7/8	\$0.28 1/2
Second Quarter	21 1/4	19 1/4	0.28 1/2
Third Quarter	22	20 1/8	0.28 1/2
Fourth Quarter	25 3/4	21 1/4	0.29 1/2

<CAPTION>

1997 ----	High ----	Low ---	Dividend -----
<S>	<C>	<C>	<C>
First Quarter	\$18	\$17	\$0.28
Second Quarter	17 7/8	16 3/8	0.28
Third Quarter	19 1/4	16 3/8	0.28
Fourth Quarter	22 1/2	18	0.28 1/2

</TABLE>

Approximate Number of Equity Security Holders as of December 31, 1998  
-----

Title of Class -----	Number of Record Holders -----
Common Stock, No Par Value	2,305

Cumulative Preferred Stock, No Par Value:		
\$7 Series		17
\$4.75 Series		1
Cumulative Convertible Preferred Stock, No Par Value:		
\$7 Series		4
\$8 Series		5

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Dividends  
-----

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

The Common Stock of the Company is traded on the NASDAQ Stock Market under the symbol MSEX.

Item 6. Selected Financial Data  
-----

Consolidated Selected Financial Data, page 20.

Item 7. Management's Discussion and Analysis of Financial  
-----

Condition and Results of Operations  
-----

The companies referred to herein are defined in Note 1(a), Notes to the Consolidated Financial Statements, included in Item 8 in Part II of this Form 10-K.

Liquidity and Capital Resources

The Company's actual capital expenditures for 1997 and 1998 and projected requirements through 2001 are detailed as follows:

<TABLE>

<CAPTION>

	(in millions)				
	1997	1998	1999	2000	2001
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
CJO Plant .....	\$ 3.1	\$ 18.6	\$ 15.0	\$ --	\$ --
Delaware Systems .....	1.4	3.2	5.8	3.3	1.1
RENEW Program .....	1.8	2.1	2.0	2.0	2.0
Scheduled upgrades to existing systems .....	4.4	3.4	3.8	5.1	6.7
	-----	-----	-----	-----	-----
Total .....	\$ 10.7	\$ 27.3	\$ 26.6	\$ 10.4	\$ 9.8
	-----	-----	-----	-----	-----

</TABLE>

Our plan to finance these projects is underway. Net proceeds from the \$23.0 million Series W First Mortgage Bonds and the December 1998, \$12.7 million common stock offering will be used to finance the Carl J. Olsen Water Treatment Plant (CJO Plant) expenditures in 1999. Middlesex issued \$2.2 million of First Mortgage Bonds through the New Jersey State Revolving Fund to cover the cost of the 1999 RENEW Program, which is our program to clean and cement line approximately nine miles of unlined mains in the Middlesex System. There is a total of approximately 170 miles of unlined mains in the 670 mile Middlesex System. We expect to apply for similar funds in 1999 for the years 2000 and 2001 RENEW Programs. The financing of our Delaware subsidiaries' capital program may be a combination of a capital contribution from Middlesex and long-term debt financing from either a financial institution or the Company. The debt financing decision will be based upon the terms of financing available to our Delaware subsidiaries. We expect to be able to cover the costs of scheduled upgrades to the existing systems with the cash flow generated from our utility operations through the year 2001.

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The Company currently has eight series of First Mortgage Bonds outstanding in the aggregate principal amount of \$74.7 million. The First Mortgage Bonds have been issued under and secured by a mortgage indenture and supplements thereto which constitute a direct first mortgage lien upon substantially all of the property of Middlesex. Tidewater borrowed funds under a \$3.5 million, 8.05% Amortizing Secured Note due December 20, 2021. Approximately \$3.4 million was outstanding under that note as of December 31, 1998.

From time to time it may be necessary to utilize all or part of the \$28.0 million in total lines of credit we have available with three commercial banks for working capital purposes or to provide interim funds until long-term financing is arranged. At December 31, 1998, we had \$1.0 million of loans

outstanding against those lines of credit.

Results of Operations  
1998 Compared to 1997

Operating Revenues were up \$2.8 million or 6.9% over 1997. The increase was attributable to several factors. Rate increases accounted for \$1.7 million of additional revenues. In January 1998, Middlesex implemented a BPU approved rate increase of 4.4%, and Pinelands Water and Wastewater Companies implemented the second part of a three phase rate increase. The final phase was put in place in January 1999. In addition, \$0.5 million was added to revenues by the inclusion of Public for the entire year of 1998 compared to five months in 1997. Public was acquired on July 31, 1997. The continued double-digit growth of 11.5% in Tidewater's customer base also contributed \$0.5 million in revenues.

Higher revenues were partially offset by increased operating expenses of \$2.4 million or 7.6%. The increases were related primarily to the following factors. Purchased water and water treatment expenses reflected a combined increase of \$0.2 million as a result of Middlesex changing the composition of the water sources it uses to supply its customers. Purchased power increased \$0.2 million due in part to a large credit Middlesex received in 1997 from its power provider. Mandated recognition of postretirement benefit costs other than pensions and amortization of BPU approved regulatory deferrals added \$0.5 million and \$0.2 million, respectively, to expenses. Labor costs were higher by \$0.5 million, and the inclusion of Public's expenses for a full year accounted for \$0.3 million of the increase.

Depreciation expense increased \$0.2 million or 7.0% based on newly constructed utility plant placed in service in 1998 and utility plant acquired through the acquisition of Public.

Other Taxes increased \$0.3 million and related mostly to revenue-related taxes and employers' payroll taxes. The decrease in Federal income taxes is due to a lower amount of deferred taxes, which offset an increased amount of current taxable income.

Other income increased \$1.4 million compared to 1997. An increase of \$0.9 million in Allowance for Funds Used During Construction was related to the capital expenditures incurred in connection with the upgrade of the CJO Plant. Interest income rose \$0.5 million as a result of the unexpended proceeds available for investment from the Series W Mortgage Bonds issued in March 1998.

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Total interest charges rose \$1.1 million. This increase reflects \$0.9 million of interest expense related to the Series W Mortgage Bonds and increased interest of \$0.2 million on a higher level of short-term borrowings under existing lines of credit incurred to finance the capital program on an interim basis.

The \$0.1 million increase in preferred stock dividend requirements reflects the issuance on July 31, 1997, of the \$8.00 preferred stock series to complete the acquisition of Public. Basic and diluted earnings per share increased \$0.09 and \$0.08, respectively over 1997. The \$0.01 per share dilution in 1998 is the result of the two series of convertible preferred stock currently outstanding.

Results of Operations  
1997 Compared to 1996

Net income increased 13.4% to \$5.9 million in 1997 compared with \$5.2 million in the prior year. Operating revenues increased by \$2.3 million to \$40.3 million due to favorable weather conditions in New Jersey and Delaware, continued growth in Tidewater's customer base of 12%, rate increases implemented by the Pinelands Companies, increased contract revenues from USA and the inclusion of Public's operating results since August 1997.

Somewhat offsetting the effect of increased revenues were higher operations and maintenance expenses of \$0.7 million or 3.7%, which reflected increased purchased water of \$0.3 million; transmission and distribution expenses of \$0.3 million; administrative and general expenses of \$0.2 million and the inclusion of operating expenses for Public of \$0.2 million. These increases were offset by reductions in purchased power and water treatment expenses of \$0.3 million.

Depreciation expense increased 4.8% due to a higher level of depreciable plant in service. Other taxes increased \$0.2 million and were related primarily to revenue-related taxes. A higher level of taxable income resulted in a \$0.6 million increase in federal taxes.

Regulatory Matters

On December 8, 1998, the Company's newly formed subsidiary, USA-PA, entered into a 20-year agreement with the City of Perth Amboy, New Jersey (Perth Amboy) and the Middlesex County Improvement Authority (MCIA) to operate and

maintain the water and wastewater systems of Perth Amboy. USA-PA began operating the City's systems on January 1, 1999.

Perth Amboy has a population of 40,000 and has approximately 9,500 customers, most of whom are served by both systems. The agreement is being 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 will receive a fixed fee and a variable fee based on increased system billing. Fixed fee payments begin at \$6.4 million in the first year and increase to \$9.7 in year 20. The agreement also requires USA-PA to lease from Perth Amboy all of its employees who currently work on the Perth Amboy water and wastewater systems. In connection with the agreement, Perth Amboy, through the MCIA, issued approximately \$68.0 million in three series of bonds on January 28, 1999. The Company guaranteed one of those series of bonds, in principal amount of approximately \$26.3 million. Perth Amboy guaranteed the two other series of bonds.

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In addition to the agreement with Perth Amboy, effective January 1, 1999, USA-PA entered into a 20-year subcontract with a sewer contracting firm for the operation and maintenance of the Perth Amboy wastewater system. The subcontract requires the sharing of certain fixed and variable fees and operating expenses.

In December 1998, Middlesex filed a petition with the Board of Public Utilities of the State of New Jersey (BPU) for approval of a franchise ordinance to provide retail water service and install water system facilities in the City of South Amboy (South Amboy). A favorable decision by the BPU will result in the elimination of an existing wholesale water sales contract and a significant modification to an existing management service contract between the Company and South Amboy. A decision from the BPU is expected in the second quarter of 1999.

On September 17, 1998, Middlesex filed a petition with the BPU for a base rate increase of \$8.0 million or 21.9%. Approximately 75% of the increase is necessary to recover the investment in the upgrade and expansion of the CJO Plant serving our central New Jersey water system. The purpose of the upgrade is to meet the new and anticipated regulatory standards concerning water quality, as well as to increase the plant's production capacity. A decision by the BPU is expected in the summer of 1999.

On January 29, 1998, the BPU approved an increase in the rates of Middlesex by 4.4% or \$1.5 million. The original petition was filed in November 1996. Under the approval, the allowed return on equity is 11.0% with an overall rate of return of 8.56%. The increase includes the recovery of postretirement costs other than pension expenses which are mandated by the Company's compliance with Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

In January 1997, the BPU approved a stipulation agreed to by the parties to the Pinelands Water and Wastewater Companies' rate cases which were filed in February 1996. The stipulations allow for a combined rate increase which will result in \$0.4 million additional revenues. The new rates were phased in over a three-year period to minimize the impact on customers. The three phases were implemented in January 1999, 1998 and 1997, respectively.

#### Accounting Standards

In June 1998, The Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts. The Company is currently evaluating the requirements of the accounting standard, which is required to be adopted in the first quarter of 2000.

SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," revises and standardizes disclosure requirements for pension and other post-retirement benefit plans but does not change the measurement or recognition of those plans. Effective January 1, 1998, the Company adopted SFAS No. 132. See Note 9 to the Consolidated Financial Statements.

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SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for reporting certain financial and descriptive information about operating segments in complete sets of financial statements and requires selected information about operating segments in interim financial reports issued to shareholders. The Company has evaluated SFAS No. 131 and has determined that at December 31, 1998, there are no disclosure requirements that would impact the Company's financial statements.

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting and display of comprehensive income and its components in a full

set of general-purpose financial statements. At December 31, 1998, the Company does not have any significant items of comprehensive income that would effect the current reporting of the Company's financial position, results of operations or cash flows.

#### Year 2000 Disclosure

Software used in many computer systems and computerized control devices was designed to record only the last two digits of each year. This software, some of which we own, may not function properly as of January 1, 2000, because it interprets the new year as 1900. An internal Year 2000 (Y2K) Committee was formed to evaluate the readiness of our existing computer systems and to design contingency plans to protect against service interruption.

Under the direction of the Y2K Committee, our own computer systems were tested to make certain that those systems will work properly when identifying date information. All of the data processing systems serving our financial reporting, customer billing, customer information, shareholder records and payroll, are outsourced. Those vendors have certified that their systems have been tested and will work properly. Certification was also received from the vendor constructing the new automated control system at the CJO Plant as to its Y2K readiness. This system provides centralized control over all the critical components of the Middlesex water production, distribution and storage systems. We believe we may rely on those certifications. We expect to spend up to \$10,000 to make certain other systems, including our network of desktop personal computers, Y2K ready. Nonetheless, it is possible that not every Y2K affected computerized control device of ours has been identified. Even if identified, we may not be able to reprogram or replace those devices in time to avoid date identification problems.

More importantly, we are concerned about the failure of computer systems and control devices used by vendors who deliver critical materials and services that are used by us in providing water and wastewater service. Some of these critical vendors provide us with electric power, raw water, finished water, telecommunications, water treatment chemicals, fuel and residual removal services. The Y2K Committee has performed the following steps to evaluate the effect of these outside factors.

Internal information is under review regarding chemical and fuel storage capacity, production capabilities using alternative power, manpower requirements for manual system operations (including financial) and emergency communication systems.

Middlesex is a member of the BPU Y2K Industry Task Force, which allows us to monitor the Y2K progress of several of our critical utility service providers. Task force meetings allow for the sharing of ideas with members that offer the same utility services.

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A questionnaire on Y2K readiness was sent to every vendor determined to be critical to the uninterrupted water and wastewater service that is provided by the Company. We expect to receive the majority of the responses before March 31, 1999, and to incorporate those responses into our contingency plan by June 1, 1999. The contingency plans must be submitted to the BPU and the Delaware Public Service Commission.

#### Qualitative and Quantitative Disclosures About Market Risk

The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have maturity dates ranging from 2009 to 2038. Over the next twelve months approximately \$0.1 million of the current portion of three existing long-term debt instruments will mature. Combining this amount with the \$1.0 million in short-term debt outstanding at December 31, 1998 and applying a hypothetical change in the rate of interest charged by 10% on those borrowings, would not have a material effect on earnings.

#### Outlook

Revenues are expected to improve in 1999. USA-PA will contribute to increased revenues generated from the 20-year service agreement with the City of Perth Amboy to operate and manage their water and wastewater systems. Anticipated customer growth in Delaware and the third phase of the Pinelands rate increase should also add to revenues. The level of earnings may be impacted by the outcome of the Middlesex base rate increase petition currently under review by the BPU and the Company's ability to maintain costs at reasonable levels. Revenues may also be affected by weather conditions.

Tidewater and Public are currently evaluating the need to petition the Delaware Public Service Commission for an increase in rates to reflect

additional construction, financing and operating costs since rates were last established in 1991 and 1992, respectively.

Our strategy is for continued growth through acquisitions, internal expansion, public/private partnerships and rate relief. Opportunities in both the regulated and non-regulated sectors that are financially sound, complement existing operations and increase shareholder value will be pursued.

Certain matters discussed in this annual report are "forward-looking statements" intended to qualify for safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. Such statements address future plans, objectives, expectations and events concerning various matters such as capital expenditures, earnings, litigation, growth potential, rates, regulatory matters, liquidity, capital resources and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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Item 7a. Qualitative and Quantitative Disclosure  
About Market Risk  
-----

This information is incorporated herein by reference to Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Page 17.

Item 8. Financial Statements and Supplementary Data  
-----

Index to Consolidated Financial Statements and Supplementary Financial Data:

Consolidated Balance Sheets at December 31, 1998 and 1997, Page 21.

Consolidated Statements of Income for the years ended December 31, 1998, 1997 and 1996, Page 23.

Consolidated Statements of Capital Stock and Long-term Debt at December 31, 1998 and 1997, Page 24.

Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996, Page 25.

Consolidated Statements of Retained Earnings for the years ended December 31, 1998 and 1997, Page 26.

Notes to Consolidated Financial Statements, Pages 27-38.

Independent Auditors' Report, Page 39.

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant  
-----

Information with respect to Directors of Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 1999 Annual Meeting of Stockholders and is incorporated herein by reference.

Information regarding the Executive Officers of Middlesex Water Company is included in Part I, Item I of this Form 10-K.

Item 11. Executive Compensation  
-----

This Information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 1999 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners  
-----  
and Management  
-----

This information for Middlesex Water Company is included in

Item 13. Certain Relationships and Related Transactions  
-----

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 1999 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K  
-----

(a) 1. The following Financial Statements and supplementary data are included in Part II, Item 8:

Management's Discussion and Analysis, Pages 12-17.

Consolidated Balance Sheets at December 31, 1998, and 1997, Pages 21-22.

Consolidated Statements of Income for the years ended December 31, 1998, 1997 and 1996 Page 23.

Consolidated Statements of Capital Stock and Long-term Debt at December 31, 1998, and 1997, Page 24.

Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996, Page 25.

Consolidated Statements of Retained Earnings for the years ended December 31, 1998, 1997 and 1996, Page 26.

Notes to Consolidated Financial Statements, Pages 27-38.

Independent Auditors' Report, Page 39.

(a) 2. Financial Statement Schedules  
-----

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

(a) 3. Exhibits  
-----

See Exhibit listing on Pages 41-44.

(b) Reports on Form 8-K  
-----

Filed December 10, 1998

Filed February 5, 1999

<TABLE>  
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CONSOLIDATED SELECTED FINANCIAL DATA  
(Thousands of Dollars Except per Share Data)

	1998	1997	1996	1995	1994	1993	1988
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Operating Revenues .....	\$ 43,058	\$ 40,294	\$ 38,025	\$ 37,847	\$ 36,122	\$ 35,479	\$ 24,034
Operating Expenses:							
Operations and Maintenance .....	21,523	19,513	18,817	18,057	16,975	16,783	11,247
Depreciation .....	3,285	3,071	2,929	2,814	2,650	2,376	1,317
Other Taxes .....	6,102	5,782	5,569	5,479	5,343	5,222	3,869
Income Taxes .....	2,999	3,135	2,526	2,975	2,766	3,072	1,781
Total Operating Expenses .....	33,909	31,501	29,841	29,325	27,734	27,453	18,214
Operating Income .....	9,149	8,793	8,184	8,522	8,388	8,026	5,820
Other Income .....	1,795	405	288	303	151	576	351
Income Before Interest Charge....	10,944	9,198	8,472	8,825	8,539	8,602	6,171
Interest Charges .....	4,423	3,337	3,304	3,121	3,044	3,122	2,545
Net Income .....	6,521	5,861	5,168	5,704	5,495	5,480	3,626



Preferred Stock Dividend .....	319	226	159	159	188	256	175
Earnings Applicable to Common Stock \$	6,202	5,635	5,009	5,545	5,307	5,224	3,451
<b>Earnings per Share:</b>							
Basic .....	\$ 1.42	\$ 1.33	\$ 1.20	\$ 1.36	\$ 1.33	\$ 1.33	\$ 1.14
Diluted .....	\$ 1.41	\$ 1.33	\$ 1.20	\$ 1.36	\$ 1.32	\$ 1.33	\$ 1.14
<b>Average Shares Outstanding:</b>							
Basic .....	4,353,879	4,235,082	4,169,334	4,078,890	4,003,393	3,924,363	3,030,802
Diluted .....	4,580,305	4,382,345	4,258,740	4,168,296	4,092,799	4,013,769	3,030,802
Dividends Declared and Paid .....	\$ 1.15	\$ 1.121/2	\$ 1.101/2	\$ 1.081/2	\$ 1.053/4	\$ 1.011/4	\$ .863/4
Total Assets .....	\$ 203,501	\$ 159,761	\$ 148,660	\$ 144,822	\$ 132,413	\$ 125,676	\$ 88,827
Convertible Preferred Stock .....	\$ 3,894	\$ 3,894	\$ 1,566	\$ 1,566	\$ 1,566	\$ 1,566	\$ --
Long-term Debt .....	\$ 78,032	\$ 52,918	\$ 52,961	\$ 52,960	\$ 49,500	\$ 37,000	\$ 39,350

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</TABLE>

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<CAPTION>  
MIDDLESEX WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
ASSETS

		December 31,	
		1998	1997
<b>UTILITY PLANT</b>			
Water Production		\$ 28,154,961	\$ 27,689,254
Transmission and Distribution		118,234,900	113,104,789
General		19,300,406	18,845,301
Construction Work in Progress		25,794,061	5,683,217
TOTAL		191,484,328	165,322,561
Less Accumulated Depreciation		32,367,936	30,251,825
UTILITY PLANT - NET		159,116,392	135,070,736
<b>NONUTILITY ASSETS - NET</b>			
		3,710,437	2,038,568
<b>CURRENT ASSETS:</b>			
Cash and Cash Equivalents		9,388,822	2,513,294
Temporary Cash Investments - Restricted		9,776,072	218,787
Accounts Receivable		4,886,067	3,794,860
Unbilled Revenues		2,298,148	2,175,934
Materials and Supplies (at average cost)		906,866	960,577
Prepayments		528,348	387,487
TOTAL CURRENT ASSETS		27,784,323	10,050,939
<b>DEFERRED CHARGES:</b>			
Unamortized Debt Expense		3,143,384	2,773,233
Preliminary Survey and Investigation Charges		276,202	213,650
Regulatory Assets:			
Income Taxes (Note 3)		5,788,752	6,031,247
Postretirement Costs (Note 9)		1,214,092	1,328,722
Other (Note 2)		2,467,674	2,253,678
TOTAL DEFERRED CHARGES		12,890,104	12,600,530
TOTAL		\$ 203,501,256	\$ 159,760,773

See Notes to Consolidated Financial Statements.

</TABLE>

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<TABLE>  
<CAPTION>  
CAPITALIZATION AND LIABILITIES

		December 31,	
		1998	1997
<b>CAPITALIZATION</b>			
Common Stock		\$ 45,507,172	\$ 31,138,484
Retained Earnings		21,222,294	20,087,065
TOTAL COMMON EQUITY		66,729,466	51,225,549

Cumulative Preferred Stock	4,995,635	4,995,635
Long-term Debt	78,031,513	52,918,245
<b>TOTAL CAPITALIZATION</b>	<b>149,756,614</b>	<b>109,139,429</b>
<b>CURRENT LIABILITIES:</b>		
Current Portion of Long-term Debt	71,730	42,708
Notes Payable	1,000,000	564,701
Accounts Payable	3,373,595	3,191,033
Taxes Accrued	5,220,669	5,142,089
Interest Accrued	1,701,330	1,183,561
Other	1,832,737	1,453,516
<b>TOTAL CURRENT LIABILITIES</b>	<b>13,200,061</b>	<b>11,577,608</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)</b>		
<b>DEFERRED CREDITS:</b>		
Customer Advances for Construction	11,275,660	10,830,646
Accumulated Deferred Investment Tax Credits (Note 3)	2,165,384	2,237,060
Accumulated Deferred Federal Income Taxes (Note 3)	12,070,474	12,177,993
Employee Benefit Plans (Note 9)	3,762,516	2,719,797
Other	791,460	723,173
<b>TOTAL DEFERRED CREDITS</b>	<b>30,065,494</b>	<b>28,688,669</b>
CONTRIBUTIONS IN AID OF CONSTRUCTION	10,479,087	10,355,067
<b>TOTAL</b>	<b>\$ 203,501,256</b>	<b>\$ 159,760,773</b>

See Notes to Consolidated Financial Statements.

</TABLE>

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<TABLE>  
<CAPTION>  
MIDDLESEX WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
OPERATING REVENUES (Note 2)	\$ 43,057,966	\$ 40,294,118	\$ 38,024,669
<b>OPERATING EXPENSES:</b>			
Operations (Note 4)	19,807,472	17,771,892	17,288,440
Maintenance	1,715,357	1,741,487	1,527,842
Depreciation	3,284,669	3,070,843	2,929,106
Other Taxes	6,101,719	5,781,641	5,569,047
Federal Income Taxes (Note 3)	2,999,288	3,135,118	2,526,297
<b>TOTAL OPERATING EXPENSES</b>	<b>33,908,505</b>	<b>31,500,981</b>	<b>29,840,732</b>
<b>OPERATING INCOME</b>	<b>9,149,461</b>	<b>8,793,137</b>	<b>8,183,937</b>
<b>OTHER INCOME:</b>			
Allowance for Funds Used During Construction	1,050,044	147,912	63,614
Other - Net	745,322	256,554	223,786
<b>TOTAL OTHER INCOME</b>	<b>1,795,366</b>	<b>404,466</b>	<b>287,400</b>
<b>INCOME BEFORE INTEREST CHARGES</b>	<b>10,944,827</b>	<b>9,197,603</b>	<b>8,471,337</b>
<b>INTEREST CHARGES:</b>			
Interest on Long-term Debt	4,088,631	3,163,035	3,166,786
Amortization of Debt Expense	132,049	121,089	120,930
Other Interest Expense	202,921	52,573	16,161
<b>TOTAL INTEREST CHARGES</b>	<b>4,423,601</b>	<b>3,336,697</b>	<b>3,303,877</b>
<b>NET INCOME</b>	<b>6,521,226</b>	<b>5,860,906</b>	<b>5,167,460</b>
<b>PREFERRED STOCK DIVIDEND REQUIREMENTS</b>	<b>318,786</b>	<b>226,027</b>	<b>158,926</b>
<b>EARNINGS APPLICABLE TO COMMON STOCK</b>	<b>\$ 6,202,440</b>	<b>\$ 5,634,879</b>	<b>\$ 5,008,534</b>
<b>EARNINGS AND DIVIDENDS PER SHARE OF COMMON STOCK:</b>			
Earnings per Share (Note 8):			
Basic	\$ 1.42	\$ 1.33	\$ 1.20

Diluted	\$ 1.41	\$ 1.33	\$ 1.20
Average Number of Shares Outstanding (Note 8):			
Basic	4,353,879	4,235,082	4,169,334
Diluted	4,580,305	4,382,345	4,258,740
Dividends Paid per Share	\$ 1.15	\$ 1.121/2	\$ 1.101/2

</TABLE>

See Notes to Consolidated Financial Statements.

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<TABLE>

<CAPTION>

MIDDLESEX WATER COMPANY  
CONSOLIDATED STATEMENTS OF CAPITAL STOCK  
AND LONG-TERM DEBT

	December 31,	
	1998	1997
<S>	<C>	<C>
Common Stock, No Par Value (Note 8):		
Shares Authorized - 10,000,000		
Shares Outstanding - 1998 - 4,897,069	\$ 45,889,980	
1997 - 4,269,217		\$ 31,425,398
Restricted Stock Plan (Note 9)	(382,808)	(286,914)
<b>TOTAL COMMON STOCK</b>	<b>45,507,172</b>	<b>31,138,484</b>

Cumulative Preference Stock, No Par Value:

Shares Authorized - 100,000

Shares Outstanding - None

Cumulative Preferred Stock, No Par Value (Note 8):

Shares Authorized - 149,980

Convertible:

Shares Outstanding, \$7.00 Series - 14,881

1,562,505

1,562,505

Shares Outstanding, \$8.00 Series - 20,000

2,331,430

2,331,430

Nonredeemable:

Shares Outstanding, \$7.00 Series - 1,017

101,700

101,700

Shares Outstanding, \$4.75 Series - 10,000

1,000,000

1,000,000

**TOTAL CUMULATIVE PREFERRED STOCK**

**4,995,635**

**4,995,635**

Long-term Debt (Note 8):

8.05%, Amortizing Secured Note, due December 20, 2021

3,418,243

3,460,953

First Mortgage Bonds:

7.25%, Series R, due July 1, 2021

6,000,000

6,000,000

5.20%, Series S, due October 1, 2022

12,000,000

12,000,000

5.25%, Series T, due October 1, 2023

6,500,000

6,500,000

6.40%, Series U, due February 1, 2009

15,000,000

15,000,000

5.25%, Series V, due February 1, 2029

10,000,000

10,000,000

5.35%, Series W, due February 1, 2038

23,000,000

-

0.00%, Series X, due August 1, 2018

1,050,000

-

4.53%, Series Y, due August 1, 2018

1,135,000

-

**SUBTOTAL LONG-TERM DEBT**

**78,103,243**

**52,960,953**

Less: Current Portion of Long-term Debt

(71,730)

(42,708)

**TOTAL LONG-TERM DEBT**

**\$ 78,031,513**

**\$ 52,918,245**

</TABLE>

See Notes to Consolidated Financial Statements.

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<TABLE>

<CAPTION>

MIDDLESEX WATER COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 6,521,226	\$ 5,860,906	\$ 5,167,460
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities:			
Depreciation and Amortization	3,796,607	3,145,218	3,011,337

Provision for Deferred Income Taxes	134,976	778,521	811,993
Allowance for Funds Used During Construction	(1,050,044)	(147,912)	(63,614)
Changes in Assets and Liabilities:			
Accounts Receivable	(1,091,207)	305,079	202,524
Accounts Payable	182,562	1,653,239	164,745
Accrued Taxes	78,580	612,904	207,266
Accrued Interest	517,769	11,170	(48,609)
Unbilled Revenues	(122,214)	29,344	(5,335)
Employee Benefit Plans	1,015,280	536,342	666,392
Other-Net	433,666	(158,099)	142,566
NET CASH PROVIDED BY OPERATING ACTIVITIES	10,417,201	12,626,712	10,256,725
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility Plant Expenditures*	(26,275,281)	(10,233,685)	(6,172,482)
Cash from Acquisition of Subsidiary	-	158,436	-
Notes Receivable	(1,619,065)	5,963	-
Preliminary Survey & Investigation Charges	(62,552)	(458,016)	(883,015)
Other-Net	(654,605)	(779,145)	(657,958)
NET CASH USED IN INVESTING ACTIVITIES	(28,611,503)	(11,306,447)	(7,713,455)

</TABLE>

<TABLE>  
<CAPTION>  
MIDDLESEX WATER COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of Long-term Debt	(42,710)	(41,780)	(1,200,000)
Proceeds from Issuance of Long-term Debt	25,185,000	-	1,000,000
Short-term Bank Borrowings	435,299	-	-
Deferred Debt Issuance Expenses	(502,200)	-	(251)
Temporary Cash Investments-Restricted	(9,557,285)	9,996	(152,593)
Proceeds from Issuance of Common Stock-Net	14,288,456	1,147,418	1,168,122
Payment of Common Dividends	(4,987,013)	(4,761,327)	(4,604,504)
Payment of Preferred Dividends	(318,751)	(239,361)	(158,926)
Construction Advances and Contributions-Net	569,034	1,032,721	549,604
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	25,069,830	(2,852,333)	(3,398,548)
NET CHANGES IN CASH AND CASH EQUIVALENTS	6,875,528	(1,532,068)	(855,278)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,513,294	4,045,362	4,900,640
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 9,388,822	\$ 2,513,294	\$ 4,045,362

\*Excludes Allowance for Funds Used During Construction.

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

Cash Paid During the Year for:			
Interest (net of amounts capitalized)	\$ 2,810,578	\$ 3,045,867	\$ 3,116,338
Income Taxes	\$ 3,162,975	\$ 1,702,200	\$ 2,117,998

</TABLE>

See Notes to Consolidated Financial Statements.

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<TABLE>  
<CAPTION>  
MIDDLESEX WATER COMPANY  
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
BALANCE AT BEGINNING OF YEAR	\$ 20,087,065	\$ 19,226,847	\$ 18,822,817
NET INCOME	6,521,226	5,860,906	5,167,460
TOTAL	26,608,291	25,087,753	23,990,277
CASH DIVIDENDS:			
Cumulative Preferred Stock	318,751	239,361	158,926
Common Stock	4,987,013	4,761,327	4,604,504
COMMON STOCK EXPENSES	80,233	-	-
TOTAL DEDUCTIONS	5,385,997	5,000,688	4,763,430
BALANCE AT END OF YEAR	\$ 21,222,294	\$ 20,087,065	\$ 19,226,847

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

(a) Organization - Middlesex Water Company (Middlesex) is the parent company and sole shareholder of Tidewater Utilities, Inc. (Tidewater), Pinelands Water Company, Pinelands Wastewater Company, Utility Service Affiliates, Inc. (USA) and Utility Service Affiliates (Perth Amboy) Inc. (USA-PA), which was established in October 1998. Public Water Supply Company, Inc. (Public) and White Marsh Environmental Systems, Inc., are wholly-owned subsidiaries of Tidewater. The financial statements for Middlesex and its wholly-owned subsidiaries (the Company) are reported on a consolidated basis. All intercompany accounts and transactions have been eliminated.

(b) System of Accounts - Middlesex, Pinelands Water and Pinelands Wastewater maintain their accounts in accordance with the Uniform System of Accounts prescribed by the Board of Public Utilities of the State of New Jersey (BPU). Tidewater and Public maintain their accounts in accordance with the Public Service Commission of Delaware (PSC) requirements.

(c) Utility Plant is stated at original cost as defined for regulatory purposes. Property accounts are charged with the cost of betterments and major replacements of property. Cost includes direct material, labor and indirect charges for pension benefits and payroll taxes. The cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties is charged to the appropriate expense accounts. At December 31, 1998, there was no event or change in circumstance that would indicate that the carrying amount of any long-lived asset was not recoverable.

(d) Depreciation is computed by each regulated member of the Company utilizing a rate approved by the applicable regulatory authority. The Accumulated Provision for Depreciation is charged with the cost of property retired, together with removal costs, less salvage.

(e) Allowance for Funds Used During Construction (AFUDC) - Middlesex, Tidewater, Public, Pinelands Water and Pinelands Wastewater capitalize AFUDC, which represents the cost of financing major projects during construction. AFUDC is added to the construction costs of individual projects exceeding specific cost thresholds established for each company and then depreciated along with the rest of the utility plant's costs over its estimated useful life. AFUDC is calculated using each company's weighted cost of debt and equity.

(f) Accounts Receivable - Provision for allowance for doubtful accounts at December 31, 1998, 1997 and 1996, and the corresponding expense and deduction for those years, is less than \$0.1 million.

(g) Revenues from regulated activities are recorded as service is rendered and include estimates for amounts unbilled at the end of the period for services provided subsequent to the last billing cycle. Fixed service charges are billed in advance by the Delaware subsidiaries and are recognized in revenue as the service is provided. Management contract fees are recorded as earned.

(h) Deferred Charges - Unamortized Debt Expense is amortized over the lives of the related issues. As authorized by the BPU, main cleaning and lining costs, tank painting and regulatory expenses are amortized over 2 to 15-year periods.

(i) Income Taxes - Middlesex files a consolidated Federal income tax return for the Company and income taxes are allocated based on the separate return method. Investment tax credits have been deferred and are amortized over the estimated useful life of the related property.

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

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

(l) In June 1998, The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts. The Company is currently

evaluating the requirements of this accounting standard, which is required to be adopted in the first quarter of 2000.

Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. At December 31, 1998, the Company does not have any significant items of comprehensive income that would effect the current reporting of the Company's financial position, results of operations or cash flows.

(m) Certain prior year amounts have been reclassified to conform to the current year reporting.

Note 2 - Rates and Revenues

On September 17, 1998, Middlesex filed a petition with the BPU for a base rate increase of \$8.0 million, or 21.9%. Approximately 75% of the increase is necessary to recover the investment in the upgrade and expansion of the Carl J. Olsen Water Treatment Plant (CJO Plant) serving our central New Jersey water system. The purpose of the upgrade is to meet the new and anticipated regulatory standards concerning water quality, as well as to increase the plant's production capacity. A decision by the BPU is expected in the summer of 1999.

On January 29, 1998, the BPU approved an increase in the rates of Middlesex by 4.4%, or \$1.5 million. The original petition was filed in November 1996. Under the approval, the allowed return on equity is 11.0% with an overall rate of return of 8.56%. The increase includes the recovery of postretirement costs other than pension expenses which are mandated by the Company's compliance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

In December 1998, Middlesex filed a petition with the BPU for approval of a franchise ordinance to provide retail water service and install water system facilities in the City of South Amboy (South Amboy). A favorable decision by the BPU will result in the elimination of an existing wholesale water sales contract and a significant modification to an existing management service contract between Middlesex, along with USA, and South Amboy (See Note 4). A decision from the BPU is expected in the second quarter of 1999.

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In January 1997, the BPU approved a stipulation agreed to by the parties to the Pinelands Water and Wastewater Companies' rate cases which were filed in February 1996. The stipulations allow for a combined rate increase which will result in \$0.4 million additional revenues. The new rates were phased in over a three-year period to minimize the impact on customers. The three phases were implemented in January 1999, 1998 and 1997, respectively.

Included in Deferred Charges-Other is \$0.9 million of deferred costs at December 31, 1998, which Middlesex, Pinelands Water and Pinelands Wastewater are recovering through rates over periods of 2 to 14 years. The BPU has excluded these costs from their rate bases and, therefore, they are not earning a return on the unamortized costs during the recovery periods.

Note 3 - Income Taxes

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

<TABLE>  
<CAPTION>

	Years Ended December 31, (Thousands of Dollars)		
	1998	1997	1996
<S>	<C>	<C>	<C>
Income Tax at Statutory Rate of 34% .....	\$ 3,237	\$ 2,956	\$ 2,616
Tax Effect of:			
AFUDC .....	(357)	(49)	(22)
Other .....	119	(133)	(68)
Total Federal Income Tax Expense .....	\$ 2,999	\$ 2,774	\$ 2,526

</TABLE>  
Federal income tax expense is comprised of the following:

<TABLE>  
<CAPTION>

	<C>	<C>	<C>
<S>			
Current .....	\$ 2,975	\$ 2,117	\$ 1,835
Deferred:			
Customer Advances .....	51	63	35
Accelerated Depreciation .....	595	753	733
Employee Benefit Plans .....	(358)	(107)	(99)
Investment Tax Credit .....	(72)	(72)	(72)

Other .....	(192)	20	94
Total Federal Income Tax Expense .....	\$ 2,999	\$ 2,774	\$ 2,526
Charged to: Operating Expenses .....	\$ 2,999	\$ 3,135	\$ 2,526
Other Income-Net ...	--	(361)	--
Total Provision .....	\$ 2,999	\$ 2,774	\$ 2,526

</TABLE>

The statutory review period for income tax returns for the years prior to 1995 has been closed.

The Company is required to set up deferred income taxes for all temporary differences regardless of the regulatory ratemaking treatment. However, if it is probable that these additional taxes will be passed on to ratepayers, an offsetting regulatory asset or liability can be recorded. Management believes that it is probable that the consolidated deferred income tax liability of approximately \$5.8 million will be recovered in future rates. Therefore, a regulatory asset has been set up to offset the increased liability.

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

<TABLE>

<CAPTION>

	Years Ended December 31,	
	(Thousands of Dollars)	
	1998	1997
<S>	<C>	<C>
Utility Plant Related	\$17,549	\$17,151
Customer Advances	(4,669)	(4,586)
Employee Benefits	(813)	(489)
Other	3	102
Total Deferred Tax Liability	\$12,070	\$12,178

</TABLE>

#### Note 4 - Commitments and Contingent Liabilities

Service Agreement - On December 8, 1998, the Company's newly formed subsidiary, USA-PA, entered into a 20-year agreement with the City of Perth Amboy, New Jersey (Perth Amboy) and the Middlesex County Improvement Authority (MCIA) to operate and maintain the water and wastewater systems of Perth Amboy. USA-PA began operating Perth Amboy's systems on January 1, 1999.

Perth Amboy has a population of 40,000 and has approximately 9,500 customers, most of whom are served by both systems. The agreement is being 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 will receive a fixed fee and a variable fee based on increased system billing. Fixed fee payments begin at \$6.4 million in the first year and increase to \$9.7 in year 20. The agreement also requires USA-PA to lease from Perth Amboy all of its employees who currently work on the Perth Amboy water and wastewater systems. In connection with the agreement, Perth Amboy through the MCIA, issued approximately \$68.0 million in three series of bonds on January 28, 1999. The Company guaranteed one of those series of bonds, in principal amount of approximately \$26.3 million. Perth Amboy guaranteed the two other series of bonds.

In addition to the agreement with Perth Amboy, effective January 1, 1999, USA-PA entered into a 20-year subcontract with a sewer contracting firm for the operation and maintenance of the Perth Amboy wastewater system. The subcontract requires the sharing of certain fixed and variable fees and operating expenses.

Franchise Agreement/Service Agreement - On December 9, 1998, Middlesex signed an agreement with the City of South Amboy (South Amboy) whereby Middlesex will be granted a franchise to provide water service and install water system facilities in South Amboy. The implementation of the franchise agreement, which is subject to approval by the BPU, will significantly impact two existing agreements entered into by the parties in 1994.

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The first agreement is for the sale of water to South Amboy on a wholesale basis. The second agreement, which included Middlesex's wholly owned subsidiary USA, is a contract to provide management services for a fixed fee. In conjunction with the franchise agreement, the water sales contract will be eliminated. In addition, the management services contract will be extended

through May 2045 and significantly modified to correspond with the terms and conditions of the franchise agreement. Certain advances made by USA to South Amboy at the commencement of the management services contract will be forgiven in consideration for the franchise agreement. Fixed fee revenues recognized under the original contract will be eliminated in lieu of revenues derived from providing water to South Amboy's 2,600 customers. In 1998, 1997 and 1996, service contract revenues recognized under the original contract were \$0.5 million, \$0.4 million and \$0.3 million, respectively. A decision by the BPU is expected in the second quarter of 1999.

Water Supply - Middlesex has an agreement with the Elizabethtown Water Company for the purchase of treated water. This agreement, which expires December 31, 2005, provides for the minimum purchase of 3 million gallons daily (mgd) of treated water with provisions for additional purchases. The 1998, 1997 and 1996 costs under this agreement were \$1.6 million, \$1.5 million and \$1.3 million, respectively. Middlesex also has an agreement with the New Jersey Water Supply Authority (NJWSA), which expires November 1, 2013, and provides for the minimum purchase of 20 mgd of untreated water from the Delaware and Raritan Canal and the Raritan River. In addition, the Company has a supplemental one-year agreement for an additional 5 mgd through April 30, 1999. This agreement is renewable on an annual basis. The total costs under this agreement in 1998, 1997 and 1996 were \$1.8 million, \$1.7 million and \$1.7 million, respectively.

Construction - The Company plans to spend approximately \$26.6 million, \$10.4 million and \$9.8 million in 1999, 2000 and 2001, respectively, on its construction program. Substantially all of the utility plant of the Company is subject to the lien of its mortgage which also includes certain restrictions as to cash dividend payments and other distributions on common stock.

Litigation - A motel in our Middlesex service area originally filed claims against us in 1990 alleging financial losses due to improper water pressure and service and also seeking punitive damages. Subsequently in 1994, and again in 1997, the motel suffered outbreaks of legionella, resulting in the 1997 shutdown of the motel by the New Jersey Department of Health. The motel amended its claims to assert that we provided water containing the legionella bacteria. The motel is in bankruptcy. A bank creditor of the motel has joined in the motel's claim against us. We believe that the motel's claims are not supportable. Claims resulting from the death of a motel guest from legionella in 1997 and claims by two other patrons alleging illness as a result of their stay at the motel in 1997 have been brought against the motel and against us. We have substantial insurance coverage, which we believe will be sufficient for all claims in this matter other than for punitive damages. We do not believe the motel's claims for punitive damages will prevail. While the outcome of this case remains uncertain, we believe that the final resolution will not have a significant effect on our financial condition or results of operations.

A 1995 fire at a warehouse in our service territory resulted in multiple party claims brought forth in the Superior Court for Middlesex County, New Jersey, as well as, with the financial collapse of the principal tenant, in the Federal Bankruptcy Court. The claims in the State court action are for unspecified amounts but include claims against us for insufficient water pressure and supply. The Bankruptcy Court has stayed all claims against the tenant except, to the extent the tenant is insured, claims brought by us arising from claims made against us by other tenants and the landlord. Under New Jersey case law, we will not have financial responsibility to parties to the extent they receive payments under their own insurance policies. We do not

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know either the total amount of claims against us or how much of that amount will be covered by the parties' own insurance policies. Our counsel in the litigation advises us that the case is unlikely to be resolved rapidly. We believe we have substantial defenses to the claims against us, although we do not have insurance coverage for them.

The Company has been notified of a potential claim of \$1.5 million involving the break of both a Company water line and an underground electric power cable in close proximity to it. The power cable contained both electric lines and a petroleum based insulating fluid. The Company is insured for damages except for damages resulting from pollution discharge. Causation and liability has not been established.

Note 5 - Lines of Credit, Notes Payable and Restricted Cash

<TABLE>

<CAPTION>

	(Thousands of Dollars)		
	1998	1997	1996
<S>	<C>	<C>	<C>
Established Lines at Year End	\$28,000	\$20,000	\$20,000
Maximum Amount Outstanding	4,575	-	-
Average Outstanding	2,653	-	-
Notes Payable at Year End	1,000	-	-
Weighted Average Interest Rate	5.37%	-	-

</TABLE>



To accommodate the funding requirements of the Company's on-going capital program, in December 1997 the Board of Directors authorized an increase in the amount of lines of credit for up to \$30 million. Short-term borrowings are generally below the prime rate with some requirements for compensating balances not exceeding 5% of the line.

Restricted temporary cash investments at December 31, 1998 include a \$7.1 million balance of Series W First Mortgage Bonds proceeds and a \$2.2 million balance of Series X and Y First Mortgage Bonds proceeds. These funds are held in trusts and restricted to specific capital expenditures. The Series W proceeds are for costs related to the CJO Plant upgrade. Series X and Y proceeds can only be used for the 1999 main cleaning and cement lining program.

#### Note 6 - Related Party Transactions

During 1998, 1997 and 1996, Middlesex had transactions with a construction company in which a member of the Board of Directors has a financial interest. Major construction transactions were awarded on the basis of competitive bids approved by the Board of Directors (with the interested Director abstaining) and amounted to \$1.0 million, \$0.7 million and \$0.9 million for the years 1998, 1997 and 1996, respectively. These amounts included \$0.1 million due the construction company at December 31, 1998, 1997 and 1996.

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#### Note 7 - Quarterly Operating Results - Unaudited

Quarterly operating results for 1998 and 1997 are as follows:

<TABLE>  
<CAPTION>

(Thousands of Dollars Except per Share Data)					
1998	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
<S>	<C>	<C>	<C>	<C>	<C>
Operating Revenues	\$ 9,769	\$ 10,591	\$12,074	\$10,624	\$43,058
Operating Income	1,948	2,268	2,978	1,955	9,149
Net Income	1,263	1,574	2,348	1,336	6,521
Basic Earnings per Share	\$ 0.28	\$ 0.34	\$ 0.52	\$ 0.28	\$ 1.42
Diluted Earnings per Share	0.28	0.34	0.51	0.28	1.41

<CAPTION>  
1997

<S>	<C>	<C>	<C>	<C>	<C>
Operating Revenues	\$9,336	\$ 9,937	\$10,968	\$10,053	\$40,294
Operating Income	2,023	2,120	2,682	1,943	8,768
Net Income	1,282	1,311	1,894	1,374	5,861
Basic Earnings per Share	\$ 0.30	\$ 0.30	\$ 0.43	\$ 0.30	\$ 1.33
Diluted Earnings per Share	0.30	0.30	0.43	0.30	1.33

</TABLE>

The information above, in the opinion of the Company, includes all adjustments consisting only of normal recurring accruals necessary for a fair presentation of such amounts. The business of the Company is subject to seasonal fluctuation with the peak period usually occurring during the summer months.

#### Note 8 - Capitalization

All the transactions discussed below related to the issuance or redemption of securities were approved by the BPU, except where noted.

##### Common Stock

In December 1998, the Company completed the sale of 517,000 shares of its no par common stock at a price of \$24.625 per share. The majority of the proceeds of the offering will be used to fund a portion of the cost of the CJO Plant upgrade. In addition, other capital improvement expenditures for the Company's utility systems will be funded by the proceeds.

In June 1998, the Company increased the number of shares authorized under the Dividend Reinvestment and Common Stock Purchase Plan (DRP) from 900,000 to 1,700,000 shares. The cumulative number of shares issued under the DRP at December 31, 1998 is 848,493. In October 1997, the Board of Directors approved a 5% discount on the first 100,000 shares of common stock sold to participants of the Company's DRP between the period of January 2, 1998 and June 1, 1998.

During 1998, 1997 and 1996, 110,852 shares (\$2.3 million), 64,148 shares (\$1.1 million) and 67,977 shares (\$1.2 million) of common stock were issued under DRP and the restricted stock plan, respectively.

In the event dividends on the preferred stock are in arrears, no dividends may be declared or paid on the common stock of the Company. At December 31, 1998, no restrictions were placed on common dividends.

Preferred Stock

If four or more quarterly dividends are in arrears, the preferred shareholders, as a class, are entitled to elect two members to the Board of Directors in addition to Directors elected by holders of the common stock. In 1998, the number of authorized Preferred Stock, without par value, was reduced from 150,000 shares to 149,980 shares to account for shares that were redeemed. At December 31, 1998 and 1997, 45,898 shares of Preferred Stock presently authorized were outstanding for each year. There were no dividends in arrears. The conversion feature of the no par \$7.00 Cumulative and Convertible Preferred Stock allows the security holders to exchange one convertible preferred share for six shares of the Company's common stock. In addition, the Company may redeem up to 10% of the outstanding convertible stock in any calendar year at a price equal to the fair market value of six shares of the Company's common stock for each share of convertible stock redeemed. On July 31, 1997, Middlesex issued 20,000 shares of no par \$8.00 Cumulative and Convertible Preferred Stock convertible into 137,140 shares of Middlesex's common stock for 100% of the common stock of Public. The preferred shares are convertible at the election of the security holder within seven years from the date of issuance at the common equivalent rate of 6.857 shares of common stock for each share of preferred. The same conversion feature is granted to Middlesex after seven years from the date of issuance.

The acquisition of Public, a 2,500-customer water system located in Sussex County Delaware was accounted for under the purchase method of accounting. The acquisition price, representing the value of the convertible preferred stock issued, was \$2.3 million and resulted in an acquisition adjustment of \$1.0 million. The acquisition adjustment is being amortized over a period determined using the remaining composite life of Public's utility plant.

The following is supplemental unaudited pro forma information, as though the acquisition occurred as of January 1, 1996.

<TABLE>

<CAPTION>

	1997	1996
<S>	<C>	<C>
Operating Revenues	\$40,985	\$38,643
Net Income	5,864	5,247
Basic Earnings per Share	\$ 1.31	\$ 1.18
Diluted Earnings per Share	1.30	1.18

</TABLE>

Long-term Debt

On March 31, 1998, Middlesex issued \$23.0 million of First Mortgage Bonds designated as Series W with a maturity date of February 1, 2038 and a coupon rate of 5.35%. The effective interest cost to maturity is 5.48%. The bond offering was competitively bid in cooperation with the New Jersey Economic Development Authority. Interest paid to the bondholders is exempt from federal and New Jersey income taxes (Tax Exempt). However, the interest is subject to the Alternative Minimum Tax (AMT). The proceeds of the bonds are being used to finance a significant portion of the upgrade of the CJO Plant.

On November 1, 1998, the Company issued \$1.05 million, designated as Series X, and \$1.135 million, designated as Series Y, First Mortgage Bonds through the New Jersey State Revolving Fund (SRF). Series X has a zero interest cost, while Series Y has a coupon rate that varies from 4.25% to 4.625%. Both issues have a final maturity date of August 1, 2018. The SRF program, which is administered by the New Jersey Environmental Infrastructure Trust, evolved from the Federal Environmental Protection Agency's (EPA) regulations issued under the Safe Drinking Water Act. Under this program, investor-owned public water

utilities can apply for construction loans, which are funded by the participating state and the EPA through the state environmental agency. In New Jersey, initial project approval must be granted by the New Jersey Department of Environmental Protection. Funds from the EPA, which can equal up to 50% of construction costs, are loaned at a zero interest cost; the interest rate on the state portion of the loan is based upon the market place at time of issuance. The interest paid to bondholders is considered Tax Exempt subject to AMT. The proceeds of the bonds are being used to fund the 1999 capital project to clean and cement line previously unlined pipes and mains. The aggregate annual maturities for the amortizing secured note and Series X and Y First Mortgage Bonds for each of the next five years are as follows: 1999 and 2000 - \$0.1 million; and 2001 through 2003; \$0.2 million. All other First Mortgage Bonds are term bonds with a single maturity date, which are listed in the Consolidated Statements of Capital Stock and Long-term Debt. The weighted average interest rate on all long-term debt at December 31, 1998 and 1997 was 6.0% and 6.35%, respectively.

Earnings Per Share

In accordance with SFAS No. 128, "Earnings Per Share," which requires dual presentation of basic and diluted earnings per share in the Consolidated Statement of Income and requires a reconciliation of basic earnings per share (EPS) to diluted EPS, the following table presents the calculation of basic and diluted EPS for the three years ended December 31. Basic 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 \$8.00 Series.

<TABLE>  
<CAPTION>

	1998		(In Thousands Except per Share Amounts)			
	Income	Shares	1997		1996	
Basic:	Income	Shares	Income	Shares	Income	Shares
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net Income	\$6,521	4,354	\$5,861	4,235	\$5,167	4,169
Preferred Dividend	(319)		(226)		(159)	
Earnings Applicable to Common Stock	\$6,202	4,354	\$5,635	4,235	\$5,008	4,169
Basic EPS	\$ 1.42		\$ 1.33		\$ 1.20	
Diluted:						
Earnings Applicable to Common Stock	\$6,202	4,354	\$5,635	4,235	\$5,008	4,169
\$7.00 Series Dividend	104	89	104	89	104	89
\$8.00 Series Dividend	160	137	68	58	-	-
Adjusted Earnings Applicable to Common Stock	\$6,466	4,580	\$5,807	4,382	\$5,112	4,258
Diluted EPS	\$ 1.41		\$ 1.33		\$ 1.20	

</TABLE>

#### Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments for which it is practicable to estimate that value. The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, marketable securities, and trade receivables and payables 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 bonds is based on quoted market prices for similar issues. At December 31, 1998 and 1997, the carrying and fair market value of the Company's bonds were as follows:

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<TABLE>  
<CAPTION>

	(Thousands of Dollars)			
	1998		1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<S>	<C>	<C>	<C>	<C>
First Mortgage Bonds	\$74,685	\$75,106	\$49,500	\$49,800

</TABLE>

For other long-term debt for which there were no quoted market price, it was not practicable to estimate their fair value. The carrying amounts of these instruments at December 31, 1998 and 1997 were \$3.4 million and \$3.5 million, respectively. Customer advances for construction have a carrying value of \$11.3 million and \$10.8 million at December 31, 1998 and 1997, respectively. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

#### Note 9 - Employee Benefit Plans

Effective January 1, 1998, the Company adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which revises and standardizes disclosure requirements for pension and other postretirement benefit plans but does not change the measurement or recognition of those plans. SFAS No. 132 supersedes the disclosure requirements in SFAS No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

#### Pension

The Company has a noncontributory defined benefit pension plan which covers substantially all employees with more than 1,000 hours of service. The Company makes contributions to the plan consistent with the funding requirements of Federal laws and regulations. In 1998, employees of Public, Pinelands Water and Pinelands Wastewater became eligible to participate in the Plan. Plan assets consist primarily of corporate equities, cash equivalents, and stock and bond funds. In addition, the Company maintains an unfunded supplemental pension plan

for its executives.

Postretirement Benefits Other Than Pensions

The Company has a postretirement benefit plan other than pension for substantially all of its retired employees. Coverage includes health care and life insurance. Employee contributions are dependent on credited years of service. Accrued retirement benefit costs are recorded each year. In 1998, employees of Tidewater, Public, Pinelands Water and Pinelands Wastewater became eligible to participate in the Plan.

The Company has recognized a deferred regulatory asset relating to the difference between the accrued retirement benefit costs and actual cash paid for plan premiums in years prior to 1998. Included in the regulatory asset is a transition obligation from adopting SFAS No.106 on January 1, 1993. As part of Middlesex's most recent rate case settlement (see Note 2), the BPU allowed the recovery of the annual accrued retirement benefit costs and the amortization of the transition obligation over 15 years. The regulatory assets at December 31, 1998 and 1997 were \$1.2 million and \$1.3 million, respectively.

The following table sets forth information relating to the Company's Pension Plans and Other Postretirement Benefits.

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<TABLE>  
<CAPTION>

	(Thousands of Dollars)			
	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Reconciliation of Benefit Obligation				
Beginning Balance .....	\$ 15,577	\$ 13,262	\$ 4,209	\$ 3,602
Service Cost .....	619	534	132	116
Interest Cost .....	1,065	935	287	258
Actuarial (Gain)/Loss .....	--	522	1	173
Benefits Paid .....	(688)	(647)	(195)	(214)
Ending Balance .....	\$ 16,573	\$ 14,606	\$ 4,434	\$ 3,935
Reconciliation of Plan Assets at Fair Value				
Beginning Balance .....	\$ 14,777	\$ 12,831	\$ --	\$ --
Actual Return on Plan Assets .....	3,456	2,498	--	--
Employer Contributions .....	46	95	195	214
Benefits Paid .....	(687)	(647)	(195)	(214)
Ending Balance .....	\$ 17,592	\$ 14,777	--	--
Funded Status .....	\$ 1,019	\$ 171	\$ (4,434)	\$ (3,935)
Unrecognized Net Transition Obligation .....	44	58	1,894	2,029
Unrecognized Net Actuarial (Gain)/Loss .....	(3,661)	(2,287)	945	734
Unrecognized Prior Service Cost .....	758	826	(146)	(157)
Accrued Benefit Cost .....	\$ (1,840)	\$ (1,232)	\$ (1,741)	\$ (1,329)

<CAPTION>

	(Thousands of Dollars)					
	Pension Benefits			Other Benefits		
	1998	1997	1996	1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Components of Net Periodic Benefit Cost						
Service Cost .....	\$ 619	\$ 534	\$ 507	\$ 132	\$ 116	\$ 101
Interest Cost .....	1,065	935	879	287	258	211
Expected Return on Plan Assets .....	(1,156)	(1,002)	(924)	--	--	--
Amortization of Net Transition Obligation .....	14	14	14	135	135	135
Amortization of Net Actuarial (Gain)/Loss .....	10	7	--	64	41	2
Amortization of Prior Service Cost .....	102	98	107	(11)	(11)	(11)
Regulatory Deferral .....	--	--	--	--	(325)	(246)
Net Periodic Benefit Cost .....	\$ 654	\$ 586	\$ 583	\$ 607	\$ 214	\$ 192

</TABLE>

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<TABLE>  
<CAPTION>

Benefits	Pension Benefits			Other		
	1998	1997	1996	1998	1997	1996
Weighted-Average Assumptions						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Discount Rate .....	7.00%	7.00%	7.25%	7.00%	7.00%	7.25%
Expected Return on Plan Assets	8.00%	8.00%	8.00%	--	--	--

Actual Return on Plan Assets .	23.95%	20.42%	12.10%	--	--	--
Rate of Compensation Increase	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%

For measurement purposes, a 5.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1998 and all future years. Assumed health care trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	(Thousands of Dollars)	
	1 Percentage Point	
	Increase	Decrease
	-----	-----
<S>	<C>	<C>
Effect on Current Year's Benefit Expense	\$ 69	\$ (58)
Effect on Benefit Obligation	717	(607)

#### 401(k) Plan

The Company has a 401(k) defined contribution plan, which covers substantially all employees with more than 1,000 hours of service. Under the terms of the Plan, the Company matches 100% of a participant's contributions which do not exceed 1% of a participant's compensation, plus 50% of a participant's contributions exceeding 1% but not more than 6%. The Company's matching contributions in 1998, 1997 and 1996 amounted to \$0.2 million for each year.

#### Stock Based Compensation

The Company maintains a restricted stock plan, under which 36,050 shares of the Company's common stock are held in escrow by the Company 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 grant other than as a result of retirement, death or disability.

In May 1997, 100,000 additional shares were allocated to the restricted stock plan, bringing the maximum number of shares authorized for grant under this plan to 160,000 shares. Compensation expense is determined by the market value of the stock on the date of the award and is being amortized over a five-year period. The compensation expenses were \$0.1 million for each of the years 1998, 1997 and 1996.

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123) the Company elected to account for its stock based compensation under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Had compensation costs for the Company's restricted stock plan been determined based on methodology prescribed in SFAS No. 123, there would have been no effect on its results of operations or cash flows.

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#### INDEPENDENT AUDITORS' REPORT MIDDLESEX WATER COMPANY

We have audited the accompanying consolidated balance sheets and consolidated statements of capital stock and long-term debt of Middlesex Water Company and its subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of income, retained earnings and of cash flows for each of the three years in the period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Middlesex Water Company and its subsidiaries at December 31, 1998 and 1997 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/DELOITTE & TOUCHE LLP/

DELOITTE & TOUCHE LLP

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SIGNATURES

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

Chairman of the Board and President and Director	/s/J. Richard Tompkins/ ----- J. Richard Tompkins	3/25/99 ----- Date
Executive Vice President and Director	/s/Richard A. Russo/ ----- Richard A. Russo	3/25/99 ----- Date
Vice President and Controller Chief Financial Officer	/s/A. Bruce O'Connor/ ----- A. Bruce O'Connor	3/25/99 ----- Date
Director	/s/John C. Cutting/ ----- John C. Cutting	3/25/99 ----- Date
Director	/s/Ernest C. Gere/ ----- Ernest C. Gere	3/25/99 ----- Date
Director	/s/John P. Mulkerin/ ----- John P. Mulkerin	3/25/99 ----- Date
Director	/s/Stephen H. Mundy/ ----- Stephen H. Mundy	3/25/99 ----- Date
Director	/s/Philip H. Reardon/ ----- Philip H. Reardon	3/25/99 ----- Date
Director	/s/Jeffries Shein/ ----- Jeffries Shein	3/25/99 ----- Date

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EXHIBIT INDEX

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

<TABLE>  
<CAPTION>

Exhibit No.	Document Description	Previous Filing's	
		Registration No.	Exhibit No.
---	-----	---	---
<S>	<C>	<C>	<C>
*3.1	Certificate of Incorporation of the Company, as amended.		
3.2	Bylaws of the Company, as amended.	33-54922	3.2
4.1	Form of Common Stock Certificate.	2-55058	2(a)
4.2	Registration Statement, Form S-3, under Securities Act of 1933		

filed February 3, 1987, relating to the Dividend Reinvestment and Common Stock Purchase Plan.

33-11717

4.3	Post Effective Amendments No. 3 and 7, Form S-3, under Securities Act of 1933 filed May 28, 1993, relating to the Dividend Reinvestment and Common Stock Purchase Plan.	33-11717	
10.1	Copy of Purchased Water Agreement between the Company and Elizabethtown Water Company, filed as Exhibit 10.1 of 1996 Form 10-K.		
10.2	Copy of Mortgage, dated April 1, 1927, between the Company and Union County Trust Company, as Trustee, as supplemented by Supplemental Indentures, dated as of October 1, 1939 and April 1, 1949.	2-15795	4(a)-4(f)
10.3	Copy of Supplemental Indentures, dated as of July 1, 1964 and June 15, 1991, between the Company and Union County Trust Company, as Trustee.	33-54922	10.4 - 10.9 and 10.16
10.4	Copy of Trust Indenture, dated as of June 15, 1991, between the New Jersey Economic Development Authority and Midlantic National Bank, as Trustee.	33-54922	10.17
10.5	Copy of Supply Agreement, dated as of November 17, 1986, between the Company and the Old Bridge Municipal Utilities Authority.	33-31476	10.12

</TABLE>

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EXHIBIT INDEX

<TABLE>  
<CAPTION>

Exhibit No.	Document Description	Previous Filing's	
		Registration No.	Exhibit No.
---	-----	---	---
<S>	<C>	<C>	<C>
10.6	Copy of Supply Agreement, dated as of July 14, 1987, between the Company and the Marlboro Township Municipal Utilities Authority, as amended.	33-31476	10.13
10.7	Copy of Supply Agreement, dated as of February 11, 1988, with modifications dated February 25, 1992, and April 20, 1994, between the Company and the Borough of Sayreville filed as Exhibit No. 10.11 of 1994 First Quarter Form 10-Q.		
10.8	Copy of Water Purchase Contract and Supplemental Agreement, dated as of May 12, 1993, between the Company and the New Jersey Water Supply Authority filed as Exhibit No. 10.12 of 1993 Form 10-K.		
10.9	Copy of Treating and Pumping Agreement, dated April 9, 1984, between the Company and the Township of East Brunswick.	33-31476	10.17
10.10	Copy of Supply Agreement, dated June 4, 1990, between the Company and Edison Township.	33-54922	10.24
10.11	Copy of Supply Agreement, between the Company and the Borough of Highland Park, filed as Exhibit No. 10.15 of 1996 Form 10-K.		
10.12	Copy of Pipeline Lease Agreement, dated as of January 9, 1987, between the Company and the City of Perth Amboy.	33-31476	10.20
10.13	Copy of Supplemental Executive Retirement Plan, effective January 1, 1984, as amended.	33-31476	10.21
10.14	Copy of 1989 Restricted Stock Plan, filed as Appendix B to the Company's Definitive Proxy Statement, dated and filed April 25, 1997.	33-31476	10.22
10.15	Amendment to Supplemental Executive Retirement Plan, dated May 23, 1990, filed as Exhibit No. 10.23 of 1991 Form 10-K.		
10.16	Copy of Transmission Agreement, dated October 16, 1992, between the Company and the Township of East Brunswick.	33-54922	10.23

</TABLE>

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EXHIBIT INDEX

<TABLE>

<CAPTION>

Exhibit No. ---	Document Description -----	Previous Filing's	
		Registration No. ---	Exhibit No. ---
<S>	<C>	<C>	<C>
10.17	Copy of Agreement and Plan of Merger, dated January 7, 1992, between the Company, Midwater Utilities, Inc. and Tidewater Utilities, Inc.	33-54922	10.29
10.18	Copy of Supplemental Indentures, dated September 1, 1993, (Series S & T) and January 1, 1994, (Series U & V), between the Company and United Counties Trust Company, as Trustee, filed as Exhibit No. 10.22 of 1993 Form 10-K.		
10.19	Copy of Trust Indentures, dated September 1, 1993, (Series S & T) and January 1, 1994, (Series V), between the New Jersey Economic Development Authority and First Fidelity Bank (Series S & T), as Trustee, and Midlantic National Bank (Series V), as Trustee, filed as Exhibit No. 10.23 of 1993 Form 10-K.		
10.20	Copy of Amended Pipeline Lease Agreement between the Company and the City of Perth Amboy	333-66727	10.24
10.21	Copy of Supplemental Indenture dated March 1, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Trust Indenture dated March 1, 1998 between the New Jersey Economic Development Authority and PNC Bank, National Association, as Trustee (Series W), filed as Exhibit No. 10.21 of the 1998 Third Quarter Form 10-Q		
10.22	Copy of Supplemental Indenture dated October 15, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Loan Agreement dated November 1, 1998 between the State of New Jersey and Middlesex Water Company (Series X), filed as Exhibit No. 10.22 of the 1998 Third Quarter Form 10-Q.		
10-23	Copy of Supplemental Indenture dated October 15, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Loan Agreement dated November 1, 1998 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series Y), filed as Exhibit No. 10.23 of the 1998 Third Quarter Form 10-Q.		
10.24	Copy of Operation, Maintenance and Management Services Agreement dated January 1, 1999 between the Company, City of Perth Amboy, Middlesex County Improvement Authority and Utility Service Affiliates, Inc.	333-66727	10.24

</TABLE>

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<TABLE>  
<CAPTION>

Exhibit No. ---	Document Description -----	Previous Filing's	
		Registration No. ---	Exhibit No. ---
<S>	<C>	<C>	<C>
10.25	Assignment and Acceptance agreement between Utility Service Affiliates, Inc. and Utility Service Affiliates (Perth Amboy) Inc.	333-66727	10.25
*23	Independent Auditors' Consent.		
*27	Financial Data Schedule		

</TABLE>

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RESTATED CERTIFICATE OF INCORPORATION

OF

MIDDLESEX WATER COMPANY

Approved by the Board of Directors February 27, 1997

MIDDLESEX WATER COMPANY (hereinafter referred to as "the Company" or "the Corporation"), a corporation of New Jersey resulting from Articles of Agreement and Consolidation dated June 23, 1897, between the MIDLAND WATER COMPANY, a corporation organized under "An act concerning corporations", approved April 7, 1875, as supplemented and amended, its certificate of incorporation having been amended under "An act concerning corporations, Revision of 1896", and MIDDLESEX WATER COMPANY, a corporation organized under "An act for the construction, maintenance and operation of water works for the purpose of supplying cited, towns and villages of this state with water", approved April 21, 1876, as amended and supplemented; and also resulting from an agreement of merger and consolidation dated September 10, 1907, between MIDDLESEX WATER COMPANY and CONSUMERS AQUEDUCT COMPANY, a corporation organized under the laws of the State of New Jersey; and having filed, on December 21, 1925, a Certificate of Desire to come under Chapter CXCI of the Laws of 1876, does hereby certify that the certificate of incorporation forming the Corporation, as amended and supplemented by all certificates filed pursuant to law, is restated as set forth below:

ARTICLE 1. The name of the corporation is MIDDLESEX WATER COMPANY. The period of existence of MIDDLESEX WATER COMPANY shall be perpetual.

ARTICLE 2. The address of the Company's current registered office is 1500 Ronson Road, Iselin, Township of Woodbridge, New Jersey 08830-3049, and the name of the Company's current agent therein upon whom process against the said Company may be served is Marion F. Reynolds.

ARTICLE 3. The purpose of the Company is to construct, maintain and operate waterworks, wells, reservoirs, mains, pipes, and appurtenances; to obtain, impound and supply water for public and private use; to acquire, hold, lease, mortgage, exchange, sell, convey and dispose of real and personal property and interests therein, including the securities of any water company or other corporation; and to exercise all the rights and powers which the Company may lawfully possess; including such rights and powers as were set forth in statutes under which the Company was incorporated as such statutes have been amended, extended and superseded from time to time.

ARTICLE 4. The management of the affairs of the Company shall be vested in a Board of Directors, to be selected by and from the stockholders, consisting of not less than five nor more than twelve directors, the exact number of directors to be determined from time to time by resolution adopted by

affirmative vote of a majority of the entire Board of Directors. The directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. At the 1984 annual meeting of stockholders, Class I directors shall be elected for a one-year term, Class II directors for a two-year terms and Class III directors for a three year term. At each succeeding annual meeting of stockholders

beginning in 1985, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, but in no case shall a decrease in the number of directors shorten the term of any incumbent director. A director shall hold office until the annual meeting for the year in which his or her term expires and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

(a) The term of a director elected by stockholders to fill a newly created directorship or other vacancy shall expire at the same time as the terms of the other directors of the class for which the new directorship is created or in which the vacancy occurred. Any vacancy on the Board of Directors that results from an increase in the number of directors and any other vacancy occurring in the Board of Directors may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. Any director so elected by the Board of Directors shall, without regard to the class in which such vacancy occurred, hold office until the next succeeding annual meeting of stockholders and until his successor shall be elected and shall qualify.

(b) Notwithstanding the foregoing, whenever the holders of any one or more classes or series of preferred stock or preference stock, issued by the Company shall have the right, pursuant to Article 7A (f) or Article 7E (e), respectively, voting separately by class or series, to elect additional directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the applicable terms of the Certificate of Incorporation, as amended, and such directors so elected shall not be divided into classes pursuant to this ARTICLE 4 unless expressly provided by such terms.

(c) The directors shall choose by a majority vote the President and one or more Vice Presidents, the Secretary and one or more Assistant Secretaries, the Treasurer and one or more Assistant Treasurers, all of whom shall be chosen annually and shall hold office for one year and until their successors are chosen and qualified. The directors shall also appoint and remove from time to time such other officers and agents as they shall think proper. All of the provisions of this article are subject to alteration from time

to time by the by-laws.

(d) The power to make and alter by-laws of the Company shall be in the Board of Directors. By-laws made by the Board of Directors may be altered or repealed by the affirmative vote of the holders of two-thirds (2/3) or more of the outstanding shares of capital stock of the Company having voting powers.

ARTICLE 5. The number of directors constituting the current Board of Directors of the Company is 9. The names and addresses of the directors constituting its current Board of Directors as follows:

John C. Cutting	1610 Northstream Parkway Point Pleasant, New Jersey
Ernest C. Gere	47 Troon Court Pawleys Island, South Carolina
John P. Mulkerin	6 Oak Grove Lane Edison, New Jersey
Stephen H. Mundy	1521 Duke of Windsor Road Virginia Beach, Virginia
Philip H. Reardon	6 Knobb Hill Byfield, Massachusetts
Richard A. Russo	1500 Ronson Road Iselin, New Jersey
Carolina M. Schneider	1109-A Troy Towers Bloomfield, New Jersey
William E. Scott	29 Laurel Place Upper Montclair, New Jersey
Jeffries Shein	30 Huntley Road Holmdel, New Jersey
J. Richard Tompkins	1500 Ronson Road Iselin, New Jersey

ARTICLE 6. The directors shall be chosen at the annual meetings of the stockholders, to be held at such time and place as shall be provided by the by-laws of the Company.

ARTICLE 7A. The total authorized capital stock of the Company is 6,169,418 shares, divided into 6,000,000 shares of common stock without nominal or par value, 69,418 shares of preferred stock without nominal or par value (out

of 100,000 shares of preferred stock originally authorized) and 100,000 shares of preference stock without nominal or par value. Certain of the originally authorized 100,000 shares of preferred stock without nominal or par value have been redeemed and canceled by the Company from time to time without the ability to reissue such shares. From time to time the capital stock of the Company may be issued and sold in such amounts, within such authorized limits, and in such proportions and for such considerations as may be fixed by the Board of Directors of the Company, and as may be permitted by law, and all capital stock so issued and sold shall be deemed fully paid and nonassessable and the holder of any such shares shall not be liable to the Company or its creditors in respect thereof.

(a) The preferred stock shall be issuable from time to time in one or more series with such designation, description and terms thereof, in the manner and to the extent permitted by the laws of the State of New Jersey, as may be determined and fixed by the Board of Directors at the time of the creation and establishment of any such series of preferred stock. All of the shares of

preferred stock of each series shall rank pari passu with all of the shares of preferred stock of each other series, and shall have the same rights and privileges, preferences and voting powers, and shall be subject to the same restriction or qualifications thereof, without distinction between the shares of the respective series except only as to variations in (i) the rates of dividend payable thereon, (ii) the terms on which shares of the respective series may be redeemed, (iii) the amount which shall be paid to the holders of the shares of the respective series in case of dissolution or any distribution of assets, (iv) the terms or amount of any sinking fund provided for the purchase or redemption thereof, (v) the terms upon which the holders of the shares of the respective series may convert the same into stock of any other class or classes or of any one or more series of the same class or of another class or classes, and (vi) in such other respects, if any, as may at the time be permitted by the laws of the State of New Jersey.

(b) The holders of the preferred stock irrespective of the series thereof shall be entitled to receive, and the Company shall be obligated to pay, when, as declared by the Board of Directors of the Company, cumulative dividends at such respective rates as may be fixed by the Board of Directors of the Company at the time of the creation and establishment of the respective series, and no more, payable quarterly on the first days of February, May, August and November of each year. Said dividends shall accumulate from the date of the original issue of each shares of such preferred stock (except for shares of the \$7 Series Cumulative Preferred Stock described in ARTICLE 7B on which dividends shall accumulate from the date of their creation). Such dividends shall be payable before any dividends shall be paid upon or set apart for the common stock, and shall be cumulative, so that if at any time dividends at the rate fixed by the Board of Directors and designated by the certificates of shares of the series of which it is a part shall not be paid thereon or set apart therefor, the deficiency shall be full paid or set apart for payment before any dividends shall be paid upon or set apart for the

common stock. Dividends shall not be paid exclusively upon any one or more series of preferred stock but dividends shall be paid ratably upon all outstanding preferred stock in the proportions that the annual dividend requirements of each series bears to the total annual dividend requirements of all outstanding preferred stock. Whenever all cumulative unpaid dividends on the preferred stock, including the current quarterly dividend, shall have been fully paid or set apart for payment, the Board of Directors may declare and pay dividends on the common stock.

(c) The preferred stock of one or more series may be subject to redemption, in which case such preferred stock may be redeemed and retired in whole, or in part, from time to time at any time on any quarterly dividend date at the option of the Company at such redemption prices as may be fixed by the Board of Directors at the time of the creation and establishment thereof; provided, however, that all stock of any particular series shall be redeemable at the same redemption price. The time, place and manner of such redemption shall be in the discretion of the Board of Directors of the Company. Preferred stock which shall have been redeemed shall not be reissued, and the Company shall from time to time cause all such shares to be retired in the manner provided by law. If less than all of the outstanding shares of preferred stock subject to redemption are to be called for redemption, redemption may be less than all of

the outstanding shares of any one or more series, in the discretion of the Board of Directors, and if less than all outstanding shares of any series are to be redeemed, the shares to be redeemed shall be determined in such manner as may be prescribed by the Board of Directors. Redemption shall be made, however, only on at least thirty (30) days prior written notice to the holders of the stock to be redeemed, which notice shall be sufficient if contained in a post-paid envelope addressed and mailed to the holder at his address of record as shown by the books of the Company, and the time of mailing such notice shall be deemed to be the time of delivery thereof. From and after the date fixed in any such notice as the date of redemption (unless default shall be made by the Company in providing monies for the payment of the redemption price, pursuant to such notice) all dividends on the preferred stock thereby called for redemption shall cease to accrue and all rights of the holders thereof as stockholders of the Company, except the right to receive the redemption price upon surrender of the certificates of stock by such holders, shall cease and determine.

(d) The holders of each series of preferred stock shall be entitled to receive payment out of the assets of the Company whether from capital or from earnings, in an amount per share determined and fixed by the Board of Directors at the time of the creation and establishment of such series of preferred stock in the event of (i) a voluntary liquidation, dissolution or winding up of the Company or a voluntary sale of all or substantially all of the assets of the

Company or upon any voluntary distribution of its capital or (ii) an involuntary liquidation, dissolution or winding up of the Company or an involuntary sale of all or substantially all of the assets of the Company, or upon any involuntary distribution of its capital, before any payment shall be made or any assets distributed to the holders of common stock. If upon such liquidation, dissolution, winding up, sale of assets or distribution of the capital of the Company, the assets or distribution of the capital of the Company, the assets thus distributed among the holders of the preferred stock shall be insufficient to permit the payment to such holders of the full preferential amounts aforesaid, then the entire assets of the Company to be distributed shall be distributed ratably among the holders of the preferred stock in proportion to the full preferential amounts, if any, to which there are respectively entitled as aforesaid. After payment or distribution to the holders of preferred stock as aforesaid and after payment or distribution of remaining assets, if any, ratably among the holders of preference stock in proportion to the full preferential amounts, if any, to which such holders are entitled pursuant to the provisions of Article 7E (c) below, the holders of common stock shall be entitled to receive, ratably, any remaining assets of the Company. A consolidation or merger of the Company with any other corporation or corporations shall not be deemed to be a liquidation, dissolution, winding up, sale or distribution of capital, within the meaning of this clause, but no such consolidation or merger shall in any way impair the rights and preferences of the preferred stock.

(e) So long as any shares of the preferred stock of any series are outstanding, the Company shall not, without the consent (given by vote at a meeting called for that purpose) of the holders of a majority of the total number of shares of the preferred stock of all series then outstanding, voting as a class, issue, sell or otherwise dispose of any additional series of preferred stock or of

any other class ranking prior to or on a parity with the preferred stock as to dividends or distributions, unless (i) the stated value of common stock and surplus earnings on the books of the Company shall be at least two (2) times the involuntary liquidation preferences of the entire amount of preferred stock of the Company already issued and then outstanding, and the preferred stock then proposed to be issued; and (ii) the earnings of the Company available for the payment of interest determined in accordance with generally accepted accounting practices shall have been for a period of twelve (12) consecutive calendar months within the fifteen (15) calendar months immediately preceding the issuance of such additional stock, at least one and one-half (1-1/2) times the annual interest requirements on all outstanding obligations for the payment of money, secured and unsecured, of the Company maturing more than twelve (12) months after the issuance of the shares proposed to be issued plus annual dividend requirements upon all outstanding preferred stock of the Company and all other classes of stock ranking prior to or on a



parity with the preferred stock as to dividends and distributions, including the shares proposed to be issued, minus any interest on any such obligations and dividends on any such outstanding stock to be retired or refunded out of the proceeds of the shares proposed to be issued.

(f) Except as otherwise required by law and subject to the provisions of subparagraph (e) hereof, no holder of preferred stock shall have any right to vote for the election of directors or for any other purpose, anything in ARTICLE 4 hereof to the contrary notwithstanding; provided, however, that if and whenever dividends on the preferred stock shall be in arrears and such arrears shall aggregate an amount at least equal to four (4) quarterly dividends, which need not be consecutive, then, in such event, the holders of the outstanding preferred stock of all series shall be entitled, at the next ensuing annual meeting of stockholders, voting as a class, to elect two members (herein called 'preferred stock directors') of the Board of Directors, which preferred stock directors shall be in addition to the directors holding office pursuant to ARTICLE 4 hereof; provided, however, that if and whenever any such fourth quarterly dividend arrearage shall occur, the Company shall, within fifteen (15) days after the receipt by the Company of written request of not less than twenty-five percent (25%) of the holders of the outstanding preferred stock, as a class and irrespective of series, cause to be called a special meeting of the holders of outstanding preferred stock of all series, to be held on the earliest practicable date, to elect the preferred stock directors, as aforesaid. For purposes of any such election such holder or holders of preferred stock as are present in person or by proxy shall constitute a quorum, irrespective of whether any holders of any other capital stock of the Company are present at such meeting. Any vacancy in the position of a preferred stock director, which, but for this provision, could be filled by such person as the Board of Directors might designate, shall be filled by the Board of Directors from among such persons as the remaining preferred stock director shall designate, and such successor shall hold office for the unexpired term of the prior incumbent and until his successor shall be duly chosen and shall qualify. Such right of the holders of the outstanding preferred stock to elect two members of the Board of Directors shall continue at each annual meeting until such time as all arrears of dividends on the preferred stock shall have been paid and dividends thereon for the current quarterly period shall have been paid or declared and provided for, in which event such right of the holders of preferred stock to elect preferred stock directors as provided in this subparagraph (f) shall cease at the next ensuing annual meeting of stockholders, subject always to the same provisions for the vesting of such right in the case of any such future arrearages in dividends.

In any case in which the holders of preferred stock shall be entitled to vote pursuant to the provisions of this subparagraph

(f) or pursuant to law, each holder of preferred stock shall be entitled to one vote for each share thereof held.

ARTICLE 7B. A first series of the Company's preferred stock,, without nominal or par value, consisting of 2,500 shares, designated as '\$7 Series Cumulative Preferred Stock' was created and established and each of the outstanding 2,500 shares of 7% Preferred Stock, \$100 par value, was changed into and thereby became a share of such first series.

The preferences, rights, qualifications, limitations and restricting of the shares of the \$7 Series Cumulative Preferred Stock, in the respects in which the shares of such series vary from shares of other series of the preferred stock, are and shall be as follows:

(a) The dividend rate for the \$7 Series Cumulative Preferred Stock shall be \$7 per share per annum;

(b) The shares of the \$7 Series Cumulative Preferred Stock shall not be subject to redemption.

(c)The preferential amounts to which holders of shares of the \$7 Series Cumulative Preferred Stock shall be entitled upon any liquidation, dissolution or winding up of the Company, whether voluntary or otherwise, or upon any distribution of the capital of the Company, shall be \$100 per share, plus accumulated and unpaid dividends thereon;

(d) There shall not be any sinking fund providing for the purchase or redemption of shares of the \$7 Series Cumulative Preferred Stock; and

(e) The shares of the \$7 Series Cumulative Preferred Stock shall not be convertible into stock of any other class or classes or any one or more series of the same class or of another class.

ARTICLE 7C. The Company created and established a second series of its preferred stock, without nominal or par value, in an amount of ten thousand (10,000) shares, which is designated as '\$4.75 Series Cumulative Preferred Stock.

The preferences, rights, qualifications, limitations and restrictions of the shares of the \$4.75 Series Cumulative Preferred Stock, in the respects in which the shares of such series vary from shares of other series of the Company's preferred stock, are and shall be as follows:

(a) The dividend rate for the \$4.75 Series Cumulative Preferred Stock shall be \$4.75 per share per annum:

(b) The redemption price for the \$4.75 Series Cumulative Preferred Stock shall be \$104.75 per share through February 1, 1968, thereafter \$104 per share through February 1, 1973; thereafter \$103,



per share through February 1, 1978; thereafter \$102 per share through February 1, 1983; thereafter \$102 per share through February 1, 1988; and thereafter, \$100 per share, plus accumulated and unpaid dividends thereon in any case; provided, however, that prior to February 1, 1968, none of the shares of such series shall be redeemed, directly or indirectly, out of the proceeds of, or in anticipation of, any refunding operation involving the incurring of any indebtedness or the sale of any class of stock ranking senior to the common stock of the Company, computed by the Company in accordance with generally accepted accounting practice, of less than 4-3/4% per annum;

(c) The preferential amounts to which holders of shares of the \$4.75 Series Cumulative Preferred Stock shall be entitled upon any liquidation, dissolution, or winding up of the Company shall be:

(i) Upon any voluntary liquidation, dissolution or winding up of the Company, the redemption price in effect at that time thereof; or

(ii) upon any involuntary liquidation, dissolution or winding up of the Company, \$100 per share plus accumulated and unpaid dividends thereon;

(d) There shall not be any sinking fund provided for the purchase or redemption of shares of the \$4.75 Series Cumulative Preferred Stock; and

(e) The shares of the \$4.75 Series Cumulative Preferred Stock shall not be convertible into stock of any other class or classes of any one or more series of the same class or of another class.

ARTICLE 7D. The Company created and established a fifth series of its preferred stock, without nominal or par value, in an original amount of seventeen thousand (17,000) shares, which is designated as '\$7 Cumulative and Convertible Preferred Stock.' The amount of such shares authorized and outstanding from time to time may be reduced by periodic redemption and cancellation of such shares by the Company, and the conversion of such shares at the election of the holder thereof into the common stock of the Company as expressly permitted under this Article 7D, without the ability to reissue such shares.

The preferences, rights, qualification, limitations and restrictions of the shares of the \$7 Cumulative and Convertible Preferred Stock, in the respects in which the shares of such series vary from shares of other series of the Company's preferred stock, are and shall be as follows:

(a) The dividend rate for the \$7 Cumulative and Convertible Preferred Stock shall be \$7 per share per annum;

(b) the redemption price for any share of \$7 Cumulative and Convertible Preferred stock shall be the Closing Price (as defined below in this article), on the day the Company's Board of Directors authorizes such redemption, of three shares of the Company's common stock plus any accumulated and unpaid dividends thereon; provided, that prior to five years from the date of issuance, none of the shares of such series shall be redeemed, directly or indirectly, out of the proceeds of, or in anticipation of, any refunding operation involving the incurring of any indebtedness or the sale of any class of stock ranking senior to the common stock of the Company which represents a cost of money to the Company, computed by the Company in accordance with generally accepted accounting practice, of less than \$7 per annum; and provided, further, that, notwithstanding any thing to the contrary herein, the Board of Directors shall not redeem in any calendar year more than 10% of the \$7 Cumulative and Convertible Preferred Stock issued and outstanding on January 1 of such year.

(c) The preferential amounts to which holders of shares of the \$7 Cumulative and Convertible Preferred Stock shall be entitled upon any liquidation, dissolution, or winding up of the Company shall be:

(i) Upon any voluntary liquidation, dissolution or winding up of the Company, the redemption price in effect at the time thereof; or

(ii) Upon any involuntary liquidation, dissolution or winding up of the Company, \$100 per share plus accumulated and unpaid dividends thereon.

(d) There shall not be any sinking fund providing for the purchase or redemption of shares of the \$7 Cumulative and Convertible Preferred Stock.

(e) Unless earlier called for redemption in accordance with the provisions hereof, each share of the \$7 Cumulative and Convertible Preferred Stock shall be convertible at the election of the holder thereof at any time after five years from the date of issuance of such share into:

(i) Shares of the Company's common stock at the Common Equivalent Rate in effect on the date of conversion (the "Conversion Date"); plus

(ii) The right to receive an amount in cash equal to all accrued and unpaid dividends on such share to and including the Conversion Date, whether or not declared, out of funds legally available therefor.

Any holder of shares of \$7 Cumulative and Convertible Preferred Stock

electing to convert such shares into shares of the Company's common stock shall provide written notice to the Company of such holder's election to convert, such notice to be sufficient if contained in a postage-paid envelope addressed and mailed to the Company. The time of mailing of such notice shall be deemed to be the date of delivery thereof. The holder's notice shall also include the following:

(i) The conversion Date, which shall be not earlier than 45 days or later than 90 days from the date of delivery of such notice;

(ii) A description of the shares of \$7 Cumulative and Convertible Preferred Stock to be converted;

(iii) The name or names in which such holder wishes the Certificate or Certificates for shares of the Company's common stock to be issued; and

(iv) The holder's agreement to be responsible for the reasonable fees and expenses of the Company's transfer agent related to such issuance of common stock upon conversion.

Immediately prior to the effectiveness of a merger or consolidation of the Company that results in the conversion or exchange of the common stock into, or the right to receive, other securities or other property (whether of the Company or any other entity) (any such merger or consolidation is referred to herein as a "Merger" or "Consolidation") each outstanding share of \$7 Cumulative and Convertible Preferred stock shall convert into:

(i) Shares of the Company's common stock at the Common Equivalent Rate in effect on the effective date of a Merger or Consolidation; plus

(ii) The right to receive an amount of cash equal to the accrued and unpaid dividends on such share of \$7 Cumulative and Convertible Preferred Stock to and including the Settlement Date (and dividends shall cease to accrue as of the Settlement Date),

unless sooner redeemed.

The Common Equivalent Rate to be used to determine the number of shares of the Company's common stock to be delivered pursuant to this article shall be initially three shares of the Company's common stock for each share of \$7 Cumulative and Convertible Preferred Stock; provided, however, that such Common Equivalent Rate shall be subject to adjustment from time to time as provided below. All adjustments to the Common Equivalent Rate shall be calculated to the nearest 1/100th of a share of the Company's common stock. Such rate in effect any time is herein called the "Common Equivalent Rate."

(i) If the Company shall either:

- (1) pay a dividend or make a distribution with respect to its common stock, in either case, in shares of such common stock,
- (2) subdivide or split its outstanding shares of common stock,
- (3) combine its outstanding shares of common stock into a smaller number of shares, or
- (4) issue by reclassification of its shares of common stock any shares of common stock of the Company,

then, in any such event, the Common Equivalent Rate in effect immediately prior thereto shall be adjusted so that the holders of a share of \$7 Cumulative and Convertible Preferred Stock shall be entitled to receive on the conversion of such share, the number of shares of common stock of the Company which such holder would have owned or been entitled to receive after the happening of any of the events described above had such share of \$7 Cumulative and Convertible Preferred Stock been surrendered for conversion at the Common Equivalent Rate in effect immediately prior to such time. Such adjustment shall become effective at the opening of business of the business day next following the record date for determination of stockholders entitled to receive such stock dividend or distribution in the case of a stock dividend or distribution and shall become effective immediately after the effective date in case of a subdivision, split, combination or reclassification; and any shares of the Company's common stock issuable in payment of a dividend shall be deemed to have been issued immediately prior to the close of business on the record date for such dividend for purposes of calculating the number of outstanding shares of the Company's common stock under clauses (ii) and (iii) below.

(ii) If the Company shall issue rights or warrants to all holders of its common stock entitling them to subscribe for or purchase shares of the Company's common stock at a price per share less than the Current Market Price per share (determined as provided below) of the common stock of the Company on the record date for the determination of stockholders entitled to receive such rights or warrants, then in each case the Common Equivalent Rate shall be adjusted by multiplying the Common Equivalent Rate in effect immediately prior thereto by a fraction, of which the numerator shall be the number of shares of the Company's common stock outstanding on the date of issuance of such rights or warrants, immediately prior to such issuance, plus the number of additional shares of its common stock offered for subscription or purchase, and of which the denominator shall be the number of shares of common stock of the Company outstanding on the date of issuance of such rights or warrants, immediately prior to such issuance, plus the number of

shares which the aggregate offering price of the total number of shares so offered for subscription or purchase would purchase at such Current Market Price (determined by multiplying such total number of shares by the exercise price of such rights or warrants and dividing the product so obtained by such Current Market Price). Shares of common stock of the Company owned by the Company or by another company of which a majority of the shares entitled to vote in the election of directors are held, directly or indirectly, by the Company shall not be deemed to be outstanding for purposes of such computation. Such adjustment shall become effective at the opening of business on the business day next following the record date for the determination of stockholders entitled to receive such rights or warrants. To the extent that shares of the Company's common stock are not delivered after the expiration of such rights or warrants, the Common Equivalent Rate shall be readjusted to the Common Equivalent Rate which would then be in effect had the adjustments made upon the issuance of such rights or warrants been made upon the basis of delivery of only the number of shares of Common Stock actually delivered.

(iii) If the Company shall pay a dividend or make a distribution to all holders of its common stock of evidence of its indebtedness or other assets (including shares of capital stock of the Company but excluding any cash dividends or distributions and dividends referred to in clause (I) above), or shall distribute to all holders of its common stock rights or warrants to subscribe for or purchase securities of the Company (other than those referred to in clause (ii) above), then in each such case the Common Equivalent Rate shall be adjusted by multiplying the Common Equivalent Rate in effect immediately prior to the date of such distribution by a fraction, of which the numerator shall be the Current Market Price per share of the Company's common stock (determined pursuant to clause (v) below) on the record date mentioned below, and of which the denominator shall be such Current Market Price per share of the Company's common stock less the fair market value (as determined by the Board of Directors of the Company, whose determination shall be conclusive) as of such record date of the portion of the assets or evidences of indebtedness so distributed, or of such subscription rights or warrants, applicable to one share of the common stock of the Company. Such adjustment shall become effective on the opening of business on the business day next following the record date for the determination of stockholders entitled to receive such distribution.

(iv) Anything in this article notwithstanding, the Company shall be entitled to make such upward adjustments in the Common Equivalent Rate, in addition to those required by this article, as the Company in its discretion shall determine to be advisable, in order that any stock dividends, subdivision of shares, distribution of rights to purchase stock or securities, or a distribution of securities convertible into or exchangeable for stock (or any transaction which would be treated as any of the foregoing

transactions pursuant to Section 305 of the Internal Revenue Code of 1986, as amended) hereafter made by the Company to its stockholders shall not be taxable.

(v) As used in this article, the Current Market Price per share of the Company's common stock on any date shall be the average of the daily Closing Prices for the five consecutive Trading Dates ending on and including the date of determination of the Current Market Price (appropriately adjusted to take into account the occurrence during such five-day period of any event that results in an adjustment of the Common Equivalent Rate).

(vi) In any case in which this article shall require that an adjustment as a result of any event become effective at the opening of business on the business day next following a record date and the date fixed for conversion occurs after such record date, but before the occurrence of such event, the Company may in its sole discretion elect to defer paying to such holder any amount in cash in lieu of a fractional share of common stock of the Company, pursuant to this article.

Whenever the Common Equivalent Rate is adjusted as herein provided, the Company shall:

(i) forthwith compute the adjusted Common Equivalent Rate in accordance with this article and prepare a certificate signed by the Chief Executive Officer, the Chairman, the President, any Vice President or the Treasurer of the Company setting forth the adjusted Common Equivalent Rate, the method of calculation thereof in reasonable detail and the facts requiring such adjustment and upon which such adjustment is based, and file such certificate forthwith with the transfer agent or agents for the \$7 Cumulative and Convertible Preferred Stock and the Company's common stock; and

(ii) mail a notice stating that the Common Equivalent Rate has been adjusted, the facts requiring such adjustment and upon which such adjustment is based and setting forth the adjusted Common Equivalent Rate to the holders of record of the outstanding shares of the \$7 Cumulative and Convertible Preferred Stock at or prior to the time the Company mails an interim statement to its stockholders covering the quarterly-yearly period during which the facts requiring such adjustment occurred, but in any event within 45 days of the end of such quarterly-yearly period.

No fractional shares of the Company's common stock shall be issued upon redemption or conversion of shares of the \$7 Cumulative and Convertible Preferred Stock but, in lieu of any fraction of a share of the Company's common stock which would otherwise be issuable in respect of the aggregate number of shares of the \$7 Cumulative and Convertible Preferred Stock surrendered by the same holder for redemption or conversion on any redemption or conversion date, the holders shall have the right to receive an amount in cash equal to the same fraction of the Closing Price.

The term "Closing Price" on any day shall mean the closing sale price regular way on such day or, in the case no such sale takes place on such day, the average closing bid and asked prices of the common stock of the Company on the over-the-counter market on the day in question as reported by the National Quotation Bureau Incorporated for National Market Securities, or a similarly generally accepted reporting service, or if not so available in such manner as furnished by a New York Stock Exchange member firm selected from time to time by the Board of Directors of the Company for that purpose; provided, however, that if the Closing Price of the Company's common stock is to be determined with respect to the redemption of shares of \$7 Cumulative and Convertible Preferred Stock at any time on or before five years from the date of issuance of such shares of \$7 Cumulative and Convertible Preferred Stock, such Closing Price shall not be less than \$26.00 per share.

The term "Current Market Price" per share of the Company's common stock on any date shall be the average of the daily Closing Prices for the five consecutive Trading Dates ending on and including the date of determination of the Current Market Price (appropriately adjusted to take into account the occurrence during such five-day period of any event that results in an adjustment of the Common Equivalent Rate).

The term "Settlement Date" shall mean with respect to a Merger or Consolidation, the business day immediately prior to the effective date of the Merger or Consolidation.

The term "Trading Date" shall mean a date on which the New York Stock Exchange (or any successor exchange) is open for the transaction of business.

(f) Notwithstanding anything in this article to the contrary, the Common Equivalent Rate shall not be adjusted due to or as a result of the issuance or distribution to all of the holders of the Company's common stock of any common stock, right or warrant (i) under or as part of the Company's dividend reinvestment plan (as presently in existence or as hereafter amended) or (ii) under or as part of any employee benefit plan of the Company (as presently in existence or hereafter adopted). In addition, notwithstanding anything in this article to the contrary, the Common Equivalent Rate shall not be adjusted due to or as a result of the issuance or distribution to any or all of the holders of the Company's common stock of any right, warrant, security convertible into common stock or other security (sometimes referred to collectively as "Shareholder Rights Securities") which is issued or



distributed by the Company to deter the occurrence of any merger, consolidation or other business combination with a third party and/or to obtain for the holders of common stock of the Company a value which the Company believes is fair in such a merger, consolidation or other business combination, so long as either (1) to extent permitted by law, all holders of the \$7 Cumulative and Convertible Preferred Stock receive the same Shareholder Rights Securities pro rata (based upon the number of shares of the Company's common stock into which the \$7 Cumulative and Convertible Preferred Stock is convertible on the day prior to issuance or distribution of the Shareholder Rights Securities) or (2) each share of the Company's common stock into which the \$7 Cumulative and Convertible Preferred Stock is converted in connection with any such merger, consolidation or other business combination of the Company receives its pro rata entitlement of any Shareholder Rights Securities immediately upon conversion.

ARTICLE 7E. The Company created and established a sixth series of its preferred stock, without nominal or par value, in an original amount of twenty thousand (20,000) shares, which is designated as "\$8 Cumulative and Convertible Preferred Stock." The amount of such shares authorized outstanding from time to time may be reduced by periodic conversion of such shares at the election of the holder thereof into the common stock of the Company as expressly permitted under this Article 7E, without the ability to reissue such shares.

The preferences, rights, qualification, limitations and restrictions of the shares of the \$8 Cumulative and Convertible Preferred Stock, in the respects in which the shares of such series vary from shares of other series of the Company's preferred stock, are and shall be as follows:

(a) The dividend rate for the \$8 Cumulative and Convertible Preferred Stock shall be \$8 per share per annum;

(b) The shares of the \$8 Cumulative and Convertible Preferred Stock shall not be subject to redemption.

(c) The preferential amounts to which holders of shares of the \$8 Cumulative and Convertible Preferred Stock shall be entitled upon any liquidation, dissolution, or winding up of the Company whether voluntary or otherwise, or upon any distribution of the capital of the Company, shall be \$120 per share, plus accumulated and unpaid dividends thereon:

(d) Each share of the \$8 Cumulative and Convertible Preferred Stock shall be convertible at the election of the holder thereof at any time or from time to time within seven years from the date of issuance of such share into:

(i) Shares of the Company's common stock at the Common Equivalent Rate in effect on the date of



conversion (the "Conversion Date"); plus

(ii) The right to receive an amount in cash equal to all accrued and unpaid dividends on such share to and including the Conversion Date, whether or not declared, out of funds legally available therefor.

Any holder of shares of \$8 Cumulative and Convertible Preferred Stock electing to convert such shares into shares of the Company's common stock shall provide written notice to the Company of such holder's election to convert, such notice to be sufficient if contained in a postage-paid envelope addressed and mailed to the Company. The time of mailing of such notice shall be deemed to be the date of delivery thereof. The holder's notice shall also include the following:

(i) The Conversion Date, which shall be not earlier than 45 days or later than 90 days from the date of delivery of such notice;

(ii) A description of the shares of \$8 Cumulative and Convertible Preferred Stock to be converted;

(iii) The name or names in which such holder wishes the Certificate or Certificates for shares of the Company's common stock to be issued; and

(iv) The holder's agreement to be responsible for the reasonable fees and expenses of the Company's transfer agent related to such issuance of common stock upon conversion.

(e) Each share of the \$8 Cumulative and Convertible Preferred Stock shall be convertible at the election of the Company at any time or from time to time after seven years from the date of issuance of such share into:

(i) Shares of the Company's common stock at the Common Equivalent Rate in effect on the date of conversion (the Conversion Date); plus

(ii) The right to receive an amount in cash equal to all accrued and unpaid dividends on such share to and including the Conversion Date, whether or not declared, out of funds legally available therefor.

If the Company elects to convert such shares into shares of the Company's common stock it shall provide written notice to the holders of \$8 Cumulative and Convertible Preferred Stock of the Company's election to convert, such notice to be sufficient if contained in a postage-paid envelope addressed and mailed to the holders at the address of the holders last shown on the records of the Company. The

time of mailing of such notice shall be deemed to be the date of delivery thereof. The Company's notice shall also include the following:

(i) The Conversion Date, which shall be not earlier than 45 days or later than 90 days from the date of such notice;

(ii) A description of the shares of \$8 Cumulative and Convertible Preferred Stock to be converted;

(iii) A request for the names or names in which such holder wishes the Certificate or Certificates for shares of the Company's common stock to be issued; and

(iv) The Company's agreement to be responsible for the reasonable fees and expenses of the Company's transfer agent related to such issuance of common stock upon conversion.

Immediately prior to the effectiveness of a merger or consolidation of the Company that results in the conversion or exchange of the common stock into, or the right to receive, other securities or other property (whether of the Company or any other entity) (any such merger or consolidation is referred to herein as a "Merger" or "Consolidation") each outstanding share of \$8 Cumulative and Convertible Preferred stock shall convert into:

(i) Shares of the Company's common stock at the Common Equivalent Rate in effect on the effective date of a Merger or Consolidation; plus the right to receive an amount of cash equal to the accrued and unpaid dividends on such share of \$8 Cumulative and Convertible Preferred Stock to and including the Settlement Date (and dividends shall cease to accrue as of the Settlement Date).

The Common Equivalent Rate to be used to determine the number of shares of the Company's common stock to be delivered pursuant to this article shall be initially 6.857 shares of the Company's common stock for each share of \$8 Cumulative and Convertible Preferred Stock; provided, however, that such Common Equivalent Rate shall be subject to adjustment from time to time as provided below. All adjustments to the Common Equivalent Rate shall be calculated to the nearest 1/100th of a share of the Company's common stock. Such rate in effect at any time is herein called the "Common Equivalent Rate."

(i) If the Company shall either:

(1) pay a dividend or make a distribution with respect to its common stock, in either case, in shares of such common stock, (2) subdivide or split its outstanding shares of common stock, (3) combine its outstanding shares of common stock into a smaller number of shares, or (4) issue by reclassification of its shares of common stock any shares of common stock of the Company, then, in any such event, the Common Equivalent Rate in effect immediately prior thereto shall be adjusted so that the holders of a share of \$8 Cumulative and Convertible Preferred Stock shall be entitled to receive on the conversion of such share, the number of shares of common stock of the Company which such holder would have owned or been entitled to receive after the happening of any of the events described above had such share of \$8 Cumulative and Convertible Preferred Stock been surrendered for conversion at the Common Equivalent Rate in effect immediately prior to such time. Such adjustment shall become effective at the opening of business of the business day next following the record date for determination of stockholders entitled to receive such stock dividend or distribution in the case of a stock dividend or distribution and shall become effective immediately after the effective date in case of a subdivision, split, combination or reclassification; and any shares of the Company's common stock issuable in payment of a dividend shall be deemed to have been issued immediately prior to the close of business on the record date for such dividend for purposes of calculating the number of outstanding shares of the Company's common stock under clauses (ii) and (iii) below.

(ii) If the Company shall issue rights or warrants to all holders of its common stock entitling them to subscribe for or purchase shares of the Company's common stock at a price per share less than the Current Market Price per share (determined as provided below) of the common stock

of the Company on the record date for the determination of stockholders entitled to receive such rights or warrants, then in each case the Common Equivalent Rate shall be adjusted by multiplying the Common Equivalent Rate in effect

immediately prior thereto by a fraction, of which the numerator shall be the number of shares of the Company's common stock outstanding on the date of issuance of such rights or warrants, immediately prior to such issuance, plus the number of additional shares of its common stock offered for subscription or purchase, and of which the denominator shall be the number of shares of common stock of the Company outstanding on the date of issuance of such rights or warrants, immediately prior to such issuance, plus the number of shares which the aggregate offering price of the total number of shares so offered for subscription or purchase would purchase at such Current Market Price (determined by multiplying such total number of shares by the exercise price of such rights or warrants and dividing the product so obtained by such Current Market Price). Shares of common stock of the Company owned by the Company or by another company of which a majority of the shares entitled to vote in the election of directors are held, directly or indirectly, by the Company shall not be deemed to be outstanding for purposes of such computation. Such adjustment shall become effective at the opening of business on the business day next following the record date for the determination of stockholders entitled to receive such rights or warrants. To the extent that shares of the Company's common stock are not delivered after the expiration of such rights or warrants, the Common Equivalent Rate shall be readjusted to the Common Equivalent Rate which would then be in effect had the adjustments made upon the issuance of such rights or warrants been made upon the basis of delivery of only the number of shares of Common Stock actually delivered.

(iii) If the Company shall pay a dividend or make a distribution to all holders of its common stock of evidence of its indebtedness or other assets (including shares of capital stock of the Company but excluding any cash dividends or distributions and dividends referred to in clause (I) above), or shall distribute to all holders of its common stock rights or warrants to subscribe for or purchase

securities of the Company (other than those referred to in clause (ii) above), then in each such case the Common Equivalent Rate shall be adjusted by multiplying the Common Equivalent Rate in effect immediately prior to the date of such distribution by a fraction, of which the numerator shall be the Current Market Price per share of the Company's common stock (determined pursuant to

clause (v) below) on the record date mentioned below, and of which the denominator shall be such Current Market Price per share of the Company's common stock less the fair market value (as determined by the Board of Directors of the Company, whose determination shall be conclusive) as of such record date of the portion of the assets or evidences of indebtedness so distributed, or of such subscription rights or warrants, applicable to one share of the common stock of the Company. Such adjustment shall become effective on the opening of business on the business day next following the record date for the determination of stockholders entitled to receive such distribution.

(iv) Anything in this article notwithstanding, the Company shall be entitled to make such upward adjustments in the Common Equivalent Rate, in addition to those required by this article, as the Company in its discretion shall determine to be advisable, in order that any stock dividends, subdivision of shares, distribution of rights to purchase stock or securities, or a distribution of securities convertible into or exchangeable for stock (or any transaction which would be treated as any of the foregoing transactions pursuant to Section 305 of the Internal Revenue Code of 1986, as amended) hereafter made by the Company to its stockholders shall not be taxable.

(v) As used in this article, the Current Market Price per share of the Company's common stock on any date shall be the average of the daily Closing Prices for the five consecutive Trading Dates ending on and including the date of determination of the Current Market Price (appropriately adjusted to take into account the occurrence during such five-day period of any event that results in an adjustment of the Common Equivalent Rate).

(vi) In any case in which this article shall

require that an adjustment as a result of any event become effective at the opening of business on the business day next following a record date and the date fixed for conversion occurs after such record date, but before the occurrence of such event, the Company may in its sole discretion elect to defer paying to such holder any amount in cash in lieu of a fractional share of common stock of the Company, pursuant to this article.

Whenever the Common Equivalent Rate is adjusted as herein provided, the Company shall:

(i) forthwith compute the adjusted Common Equivalent Rate in accordance with this article and prepare a certificate signed by the Chief Executive Officer, the Chairman, the President, any Vice President or the Treasurer of the Company setting forth the adjusted Common Equivalent Rate, the method of calculation thereof in reasonable detail and the facts requiring such adjustment and upon which such adjustment is based, and file such certificate forthwith with the transfer agent or agents for the \$8 Cumulative and Convertible Preferred Stock and the Company's common stock; and

(ii) mail a notice stating that the Common Equivalent Rate has been adjusted, the facts requiring such adjustment and upon which such adjustment is based and setting forth the adjusted Common Equivalent Rate to the holders of record of the outstanding shares of the \$8 Cumulative and Convertible Preferred Stock at or prior to the time the Company mails an interim statement to its stockholders covering the quarterly-yearly period during which the facts requiring such adjustment occurred, but in any event within 45 days of the end of such quarterly-yearly period.

No fractional shares of the Company's common stock shall be issued upon redemption or conversion of shares of the \$8 Cumulative and Convertible Preferred Stock but, in lieu of any fraction of a share of the Company's common stock which would otherwise be issuable in respect of the aggregate number of shares of the \$8 Cumulative and Convertible Preferred Stock surrendered by the same holder for redemption or conversion on any redemption or conversion date, the holders shall have the right to receive an amount in cash equal to the same fraction of the Closing Price.

The term "Closing Price" on any day shall mean the closing sale price regular way on such day or, in the case no such sale takes place on such

day, the average closing bid and asked prices of the common stock of the Company on the over-the-counter market on the day in question as reported by the National Quotation Bureau Incorporated for National Market Securities, or a similarly generally accepted reporting service, or if not so available in such manner as furnished by a New York Stock Exchange member firm selected from time to time by the Board of Directors of the Company for that purpose.

The term "Current Market Price" per share of the Company's common stock on any date shall be the average of the daily Closing Prices for the five consecutive Trading Dates ending on and including the date of determination of the Current Market Price (appropriately adjusted to take into account the occurrence during such five-day period of any event that results in an adjustment of the Common Equivalent Rate).

The term "Settlement Date" shall mean with respect to a Merger or Consolidation, the business day immediately prior to the effective date of the Merger or Consolidation.

The term "Trading Date" shall mean a date on which the New York Stock Exchange (or any successor exchange) is open for the transaction of business.

(f) Notwithstanding anything in this article to the contrary, the Common Equivalent Rate shall not be adjusted due to or as a result of the issuance or distribution to all of the holders of the Company's common stock of any common stock, right or warrant (i) under or as part of the Company's dividend reinvestment plan (as presently in existence or as hereafter amended) or (ii) under or as part of any employee benefit plan of the Company (as presently in existence or hereafter adopted). In addition, notwithstanding anything in this article to the contrary, the Common Equivalent Rate shall not be adjusted due to or as a result of the issuance or distribution to any or all of the holders of the Company's common stock of any right, warrant, security convertible into common stock or other security (sometimes referred to collectively as "Shareholder Rights Securities") which is issued or distributed by the Company to deter the occurrence of any merger, consolidation or other business combination with a third party and/or to obtain for the holders of common stock of the Company a value which the Company believes is fair in such a merger, consolidation or other business combination, so long as either (1) to extent permitted by law, all holders of the \$8 Cumulative and Convertible Preferred Stock receive the same Shareholder Rights Securities pro rata (based upon the number of shares of the Company's common stock into which the \$8 Cumulative and Convertible Preferred Stock is convertible on the day prior to issuance or distribution of the Shareholder Rights Securities) or (2) each share of the Company's common stock into which the \$8 Cumulative and Convertible Preferred Stock is converted in connection with any



such merger, consolidation or other business combination of the Company receives its pro rata entitlement of any Shareholder Rights Securities immediately upon conversion.

ARTICLE 7F. The preference stock shall be issuable from time to time in series with such designations, descriptions and terms thereof, in the manner and to the extent permitted by the laws of the State of New Jersey, as may be determined and fixed by the Board of Directors, subject to the provisions of subparagraph (f) below, as the time of the creation and establishment of any such series of preference stock. All of the shares of preference stock of each series shall rank pari passu with all of the shares of preference stock of each other series, and shall have the same rights and privileges, preferences and voting powers and shall be subject to the same restrictions or qualifications thereof, without distinction between the shares of the respective series except only as to variations in (i) the rates of dividend payable thereon, (ii) the terms on which shares of the respective series may be redeemed, (iii) the amount which shall be paid to the holders of shares of the respective series in case of dissolution or any distribution of assets, (iv) voting rights, if any, (v) the terms or amounts of any sinking fund provided for the purchase or redemption thereof, (vi) the terms on which the holders of shares of the respective series may convert the same into stock of any other class or classes or of any one or more series of the same class or of another class or classes, and (vii) in such other respects, if any, as may at the time be permitted by the laws of the State of New Jersey.

(a) The holders of preference stock irrespective of the series thereof shall be entitled to receive, and the Company shall be obligated to pay, when and as declared by the Board of Directors of the Company and subject to the provisions of subparagraph (f) below, cumulative dividends at such respective rates as may be fixed by the Board of Directors of the Company at the time of the creation and establishment of the respective series, and no more, payable quarterly on the first date of March, June, September, and December, of each year. Such dividends shall accumulate from the date of the original issue of each share of such preference stock. Such dividends shall be payable before any dividend shall be paid upon or set apart for the common stock, and shall be cumulative, so that if at any time dividends at the rate fixed by the Board of Directors and designated by the certificates of shares of the series of which it is a part shall not be paid thereon or set apart therefor, the deficiency shall be fully paid or set apart for payment before any dividend shall be paid upon or set apart for the common stock. Dividends shall not be paid exclusively upon any one or more series of preference stock but dividends shall be paid ratably upon all outstanding preference stock in the proportions that the annual dividend requirements of each series bears to the total annual dividend requirements of all outstanding preference stock. Whenever all cumulative unpaid dividends on the



preference stock, including the current quarterly dividend, shall have been fully paid or set apart for payment, the Board of Directors may declare and pay dividends on the common stock.

(b) The preference stock of one or more series may be subject to redemption, in which case such preference stock may be deemed and retired in whole, or in part, from time to time at any time on any quarterly dividend date at the option of the Company at such redemption prices as may be fixed by the Board of Directors at the time of the creation and establishment thereof; provided, however, that all stock of any particular series shall be redeemable at the same redemption price. The time, place and manner of such redemption shall be in the discretion of the Board of Directors of the Company. Preference stock which shall have been redeemed shall not be reissued, and the Company shall have from time to time cause all such shares to be retired in the manner provided by law. If less than all of the outstanding shares of preference stock subject to redemption are to be called for redemption, redemption may be made of any one or more series, or redemption may be made of less than all of the outstanding shares of any one or more series, in the discretion of the Board of Directors, and if less than all outstanding shares of any series are to be redeemed, the shares to be redeemed shall be determined in such manner as may be prescribed by the Board of Directors. Redemption shall be made, however, only on at least thirty (30) days' prior written notice to the holders of the shares to be redeemed which notice shall be sufficient if contained in a post-paid

envelope addressed and mailed to the holder at his address or record as shown by the books of the Company, and the time of mailing such notice shall be deemed to be the time of delivery thereof. From and after the date fixed in any such notice as the date of redemption (unless default shall be made by the Company in providing monies for the payment of the redemption price, pursuant to such notice) all dividends on the preference stock thereby called for redemption shall cease to accrue and all rights of the holders thereof as stockholders of the Company, except the right to receive the redemption price upon surrender of the certificates of stock by such holders, shall cease and determine.

(c) Subject to the provisions of subparagraph (f) below, the holders of each series of preference stock shall be entitled to receive payment out of the assets of the Company whether from capital or from earnings, in an amount per share determined and fixed by the Board of Directors at the time of the creation and establishment of such series of preference stock, in the event of (i) a voluntary liquidation,

dissolution or winding up of the Company or of a voluntary sale of all or substantially all of the assets of the Company or upon any voluntary distribution of its capital, or (ii) an involuntary liquidation, dissolution or winding up of the Company or an involuntary sale of all or substantially all of the assets of the Company, or upon any involuntary distribution of its capital, before any payment shall be made or any assets distributed to the holders of common stock. If upon such liquidation, dissolution, winding up, sale of assets or distribution of the capital among the holders of the preference stock shall be insufficient to permit the payment to such holders of the full preferential amounts aforesaid, then the entire assets of the Company to be distributed shall be distributed ratably among the holders of the preference stock in proportion to the full preferential amounts, if any, to which they are respectively entitled as aforesaid. After payment or distribution of the assets of the Company ratably among the holders of preferred stock in accordance with the provisions of Article 7A (d) and after payment or distribution of remaining assets, if any, to the holders of preference stock as provided in this paragraph, the holders of common stock shall be entitled to receive, ratably, any remaining assets of the Company. A consolidation or merger of the Company with any other corporation or corporations shall not be deemed to be a liquidation, dissolution, winding up, sale or distribution of capital, within the meaning of this clause, but no such consolidation or merger shall in any way impair the rights and preferences of the preference stock.

(d) So long as any shares of the preference stock of any series are outstanding, the Company shall not, without the consent (given by vote at a meeting called for that purpose) of the holders of a majority of the total number of shares of the preference stock of all series then outstanding, voting as a class, issue, sell or otherwise dispose of any additional series of preference stock ranking prior to with the preference stock as to dividends or distributions, unless (i)

the stated value of common stock and surplus earnings on the books of the Company shall be at least two (2) times the involuntary liquidation preferences of the entire amount of preference stock of the Company already issued and then outstanding, and the additional stock then proposed to be issued; and (ii) the earnings of the Company available for the payment of interest determined in accordance with generally accepted accounting practices shall have been for a period of twelve (12) consecutive calendar months within the fifteen (15) calendar months immediately preceding the issuance of such additional stock, at least one and one-half (1-1/2) times the annual interest requirements on all outstanding obligations for the payment of money, secured and unsecured, of the

Company maturing more than twelve (12) months after the issuance of the shares proposed to be issued plus annual dividend requirements upon all outstanding preference stock of the Company and all other classes of stock ranking prior to or on a parity with the preference stock as to dividends and distributions, including the shares proposed to be issued, minus any interest on any such obligations and dividends on any such outstanding stock to be retired or refunded out of the proceeds of the shares proposed to be issued. The Company may, without the consent of the holders of preference stock, increase the number of shares of any class of stock other than preference stock which the Company is authorized to issue and may create and establish any series thereof as herein provided.

(e) Except as required by law, holders of preference stock shall have such voting rights, if any, with respect to such preference stock as are fixed by the Board of Directors at the time of the issuance of the series of such preference stock; however, no holder of preference stock shall have or be granted voting rights with respect to each or any share of preference stock held by such holder which exceed or are superior to (with respect to number of votes per share, the subject matter upon which voting is permitted or required, or otherwise) the voting rights a holder of common stock shall have with respect to each or any share of common stock held by such common stock holder. However, notwithstanding the foregoing provisions of this paragraph, if and whenever dividends on the preference stock shall be in arrears and such arrears shall aggregate an amount at least equal to four (4) quarterly dividends, which need not be consecutive, then and in such event, the holders of the outstanding preference stock of all series shall be entitled, at the next ensuing annual meeting of the stockholders, voting as a class, to elect two members (herein called "preference stock directors") of the Board of Directors, which preference stock directors shall be in addition to the directors holding office pursuant to ARTICLE 4 hereof and in addition to any directors holding office or to be elected as preferred stock directors; and provided further that if and whenever any such four (4) quarterly dividend arrearage shall occur, the Company shall, within fifteen (15) days after the receipt by the Company of written request of not less than twenty-five per cent (25%) of the holders of the outstanding preference stock, as a class, and irrespective of series, cause to be called a special meeting of the holders of outstanding preference stock of all series, to be held on the earliest practicable date, to elect the preference stock directors, as aforesaid. For purposes of any such election such holder or holders of preference stock as are present in person or by proxy shall constitute a

quorum, irrespective of whether any holders of any other capital stock of the Company are present at such meeting. Any vacancy in the position of preference stock director, which, but for this provision, could be filled by such person as the Board of Directors might designate, shall be filled by the Board of Directors from among such persons as the remaining preference stock directors shall designate, and such successor shall hold office for the unexpired term of the prior incumbent and until his successor shall be duly chosen and shall qualify. Such right of the holders of the outstanding preference stock to elect two members of the Board of Directors shall continue at each annual meeting until such time as all arrears of dividends thereon for the current quarterly period shall have been paid or declared and provided for, in which event such right of the holders of preference stock to elect preference stock directors as provided in this subparagraph (e) shall cease at the next ensuing annual meeting of stockholders, subject always to the same provisions for the vesting of such right in the case of any such future arrearages in dividends.

(f) Notwithstanding any of the provisions contained in subparagraphs (a) through (e) above, (i) the preferred stock shall rank prior to the preference stock as to both dividends and the right to receive payment out of the assets of the Company upon any voluntary liquidation, dissolution or winding up of the Company, or any voluntary sale of all or substantially all of the assets of the Company, or any voluntary distribution of its capital, or any involuntary liquidation, dissolution or winding up of the Company, or any involuntary sales of all or substantially all of the assets of the Company, or any involuntary distribution of its capital, (ii) the Company shall not pay any dividends on the shares of preference stock at any time outstanding unless and until all dividends payable on the shares have been paid or declared and set aside for payment, and (iii) no distribution shall be made on any shares of preference stock at any time outstanding, and no payment of any kind shall be made thereon to any holder thereof, unless all payments required to be made on the shares of preferred stock outstanding at such time and to the holders thereof, whether upon redemption or pursuant to the provisions of any sinking fund provided therefor, or upon a voluntary liquidation, dissolution or winding up of the Company or a voluntary sale of all or substantially all of the assets of the Company or any voluntary distribution of its capital, or an involuntary liquidation, dissolution or winding up of the Company or an involuntary sale of all or substantially all of the assets of the Company, or any involuntary distribution of its capital, or otherwise, shall have been paid or shall have been irrevocably set aside for payment.

Nothing contained in subparagraph (e) above pertaining to the rights of the holders of preference stock to elect directors shall be deemed to affect the rights of holders of preferred stock to elect directors upon default in the payment of dividends on the preferred stock.

ARTICLE 8. Any action which, at any meeting of stockholders, requires the vote, assent or consent of two-thirds in interest of all of the stockholders of the Company, or of two-thirds in interest of each class of stockholders of the Company having voting power, or which requires such assent or consent in writing to be filed, may be taken upon the assent of and the assent given and filed, as the case may be, by two-thirds in interest of the stockholders of the Company present and voting at such meeting in person or by proxy, but where assent by classes is required such assent shall be given by two-thirds in interest of each class so present and voting.

ARTICLE 9. Any and all action requiring stockholder approval may only be taken at an annual or special meeting of stockholders of the Company and not by consent in lieu of such meeting.

ARTICLE 10. To the full extent from time to time as permitted by law, directors and officers of the Corporation shall not be personally liable to the Corporation or its stockholders for damages for breach of any duty owed to the Corporation or its stockholders. No amendment or repeal of this provision shall adversely affect any right or protection of a director or officer of the Corporation existing at the time of such amendment or repeal.

Dated: February 27, 1997  
Iselin, New Jersey

MIDDLESEX WATER COMPANY  
-----

/s/J. Richard Tompkins  
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J. Richard Tompkins  
Chairman of the Board and President

Attest: \_\_\_\_\_  
Marion F. Reynolds  
Vice President, Secretary and Treasurer

CERTIFICATE  
OF AMENDMENT TO THE  
RESTATED CERTIFICATE OF INCORPORATION

To: The Secretary of State of the State of New Jersey

Pursuant to the provisions of N.J.S.A. 14A.9-2(4) and N.J.S.A. 14A:9-4 the undersigned Corporation executes the following Certificate of Amendment to its Restated Certificate of Incorporation.

1. The Name of the Corporation is MIDDLESEX WATER COMPANY. The principal office of the Corporation is 1500 Ronson Road, Iselin, New Jersey 08830-3020.

2. The Company adopted the following amendment:

The first sentence of Article 7A of the Company's Restated Certificate of Incorporation is amended to read as follows:

ARTICLE 7A. The total authorized capital stock of the Company is 6,250,000 shares, divided into 6,000,000 shares of common stock without nominal or par value, 150,000 shares of preferred stock without nominal or par value and 100,000 shares of preference stock without nominal or par value.

3. Such amendment was adopted by the shareholders on May 28, 1997.

4. The number of shares entitled to vote on the amendment was 4,219,516 shares of the Company's Common Stock, no par value.

5. 2,116,563 shares were voted for the amendment, 430,091 shares were voted against such amendment and 109,167 shares abstained from voting on such amendment.

MIDDLESEX WATER COMPANY

By: /s/Marion F. Reynolds

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Marion F. Reynolds

Vice President, Secretary & Treasurer

Dated: May 29, 1997

(S E A L)

CERTIFICATE OF AMENDMENT  
TO THE  
RESTATED CERTIFICATE OF INCORPORATION  
MIDDLESEX WATER COMPANY

To: The Secretary of State of the State of New Jersey.

Pursuant to the provisions of N.J.S.A. 14A:7-18 the undersigned Corporation executes the following Certificate of Amendment to its Restated Certificate of Incorporation:

1. The name of the Corporation is MIDDLESEX WATER COMPANY. The principal office of the Corporation is 1500 Ronson Road, Iselin, New Jersey 08830-3020.

2. 20 shares of the \$7.00 Series Cumulative and Convertible Preferred Stock of the Corporation have been cancelled.

3. The date of adoption of the resolution of the Board of Directors cancelling such shares is April 23, 1998.

4. The aggregate number of authorized shares, including shares outstanding, itemized by classes and series, after giving effect to such cancellation, is as follows:

Class	Authorized Shares
Common Stock, No Par Value:	6,000,000
Cumulative Preferred Stock, No Par Value:	
\$7 Series	2,500
\$8 Series	20,000
\$4.75 Series	10,000
Cumulative and Convertible Preferred Stock,	
\$7 Series	14,881 (Note A)
All Series	149,980 (Note B)
Preference Stock, No Par Value:	100,000

5. The Restated Certificate of Incorporation provides that the shares cancelled shall not be reissued; and the Restated Certificate of Incorporation is amended by decreasing the aggregate number of shares which the corporation is authorized to issue by the number of shares cancelled.

Note A: Reflects an authorization of 17,000 shares reduced by the number of cancelled shares which are not to be reissued.

Note B: Reflects an authorization of 150,000 shares reduced by the number of cancelled shares which are not to be reissued.

MIDDLESEX WATER COMPANY

By /s/A. Bruce O'Connor  
-----  
A. Bruce O'Connor  
Vice President and Controller

Dated: May 5, 1998

(S E A L)

CERTIFICATE OF AMENDMENT  
TO THE  
RESTATED CERTIFICATE OF INCORPORATION  
MIDDLESEX WATER COMPANY

TO: THE SECRETARY OF STATE OF THE STATE OF NEW JERSEY

Pursuant to the provisions of the N.J.S.A. 14A9-2(4) and N.J.S.A. 14A9-4(3), the undersigned Corporate executes the following Certificate of Amendment to the Restated Certificate of Incorporation:

1. The name of the Corporation is MIDDLESEX WATER COMPANY.

2. The following amendment to the Restated Certificate of Incorporation was approved by the Directors of the Corporation on February 26, 1998, and thereafter was duly adopted by the shareholders of the Corporation on May 27, 1998:

NOW, THEREFORE, BE IT RESOLVED that: the first sentence of ARTICLE 7A of the Restated Certificate of Incorporation be amended to read as follows:

"The total authorized capital stock of the Company is 10,169,418, divided into 10,000,000 shares of common stock without nominal or par value, 69,418 shares of preferred stock without nominal or par value (out of 100,000 shares of preferred stock originally authorized) and 100,000 shares of preference stock without nominal or par value."

FURTHER RESOLVED, that the said amendment of the Restated Certificate of Incorporation be submitted to a vote of the stockholders of this Corporation entitled to vote thereon, to wit, the holders of common stock of record at the close of business on April 1, 1998, at the Annual Meeting of Stockholders of this Corporation to be held on May 27, 1998.

3. The total number of shares entitled to vote thereon was 4,315,632.



4. The number of shares voting for, against and abstaining from such amendment is as follows:

For	Against	Abstain	Total
3,297,443	188,505	44,769	3,530,717

IN WITNESS WHEREOF, the Company has made this Certificate of Amendment under its seal and the hands of its Chairman of the Board and President and its Secretary this 27th day of May, 1998.

MIDDLESEX WATER COMPANY

By: /s/J. Richard Tompkins  
-----  
J. Richard Tompkins  
Chairman of the Board and President

ATTEST:

-----  
Marion F. Reynolds  
Vice President and Secretary

Independent Auditors' Consent

We consent to the incorporation by reference in Registration Statement No. 33-11717 of Middlesex Water Company on Form S-3 of our report dated February 16, 1999, incorporated by reference in this Annual Report on Form 10-K of Middlesex Water Company and its subsidiaries for the year ended December 31, 1998.

/s/DELOITTE & TOUCHE LLP/  
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DELOITTE & TOUCHE LLP  
Parsippany, New Jersey  
March 25, 1999

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