



Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer	Smaller Reporting Company
<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes  No

The aggregate market value of the Class A Non-Voting Common Stock and Class B Common Stock held by non-affiliates of the registrant at June 30, 2009 was \$101,204,000 and \$5,102,000, respectively. The aggregate market value of Class A Non-Voting Common Stock was computed by reference to the closing price of such class as reported on the Nasdaq Global Market on June 30, 2009. The aggregate market value of Class B Common Stock was computed by reference to the last reported trade of such class as reported on the OTC Bulletin Board as of June 30, 2009, which trade date was June 29, 2009.

As of March 9, 2010, 6,635,383 shares of Class A Non-Voting Common Stock and 881,452 shares of Class B Common Stock were outstanding.

ARTESIAN RESOURCES CORPORATION  
TABLE OF CONTENTS

FORWARD LOOKING STATEMENTS

PART I

Item 1. – Business

Item 1A. – Risk Factors

Item 1B. – Unresolved Staff Comments

Item 2. – Properties

Item 3. – Legal Proceedings

Item 4. – [Reserved]

PART II

Item 5. – Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Item 6. – Selected Financial Data

Item 7. – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Item 7A. – Quantitative and Qualitative Disclosure About Market Risk

Item 8. – Financial Statements and Supplementary Data

Item 9. – Changes in and Disagreements With Accountants on Accounting and Financial Disclosures

Item 9A. – Controls and Procedures

Item 9B. – Other Information

PART III

Item 10. – Directors, Executive Officers and Corporate Governance

Item 11. – Executive Compensation

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

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

Item 14. – Principal Accountant Fees and Services

PART IV

Item 15. – Exhibits and Financial Statement Schedules

SIGNATURES

Exhibit 21-Subsidiaries of the Company

Exhibit 23.1-Consent of BDO Seidman LLP

Exhibit 31.1-Certification of Chief Executive Officer

Exhibit 31.2-Certification of Chief Financial Officer

Exhibit 32- Certification of Chief Executive Officer and Chief Financial Officer

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in this Annual Report on Form 10-K which express our “belief,” “anticipation” or “expectation,” as well as other statements which are not historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act and the Private Securities Litigation Reform Act of 1995. Statements regarding our goals, priorities, growth and expansion plans and expectation for our water and wastewater subsidiaries and non-regulated subsidiaries, customer base growth opportunities in Delaware and Cecil County, Maryland, our belief regarding our capacity to provide water services for the foreseeable future to our customers, our belief relating to our compliance and the cost to achieve compliance with relevant governmental regulations, our expectation of the timing of decisions by regulatory authorities, our expectation of the timing of the closing for pending acquisitions, the impact of weather on our operations and the execution of our strategic initiatives, our expectation of the timing for construction on new projects, our belief regarding our reliance on outside engineering firms, our expectation relating to the adoption of recent accounting pronouncements, contract operations opportunities, legal proceedings, our properties, deferred tax assets, adequacy of our available sources of financing, the expected recovery of expenses related to our long-term debt, our expectation to be in compliance with financial covenants in our debt instruments, our ability to refinance our debt as it comes due, the timing and terms of renewals of our lines of credit, plans to increase our wastewater treatment operations and other revenue streams less affected by weather, expected future contributions to our postretirement benefit plan, and our liquidity needs are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties that could cause actual results to differ materially from those projected. Words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “seeks”, “estimates”, “projects”, “forecasts”, “should”, variations of such words and similar expressions are intended to identify such forward-looking statements. Certain factors as discussed under Item 1A -Risk Factors, such as changes in weather, changes in our contractual obligations, changes in government policies, the timing and results of our rate requests, changes in economic and market conditions generally, and other matters could cause results to differ materially from those in the forward-looking statements. While the Company may elect to update forward-looking statements, we specifically disclaim any obligation to do so and you should not rely on any forward-looking statement as representation of the Company’s views as of any date subsequent to the date of the filing of this Annual Report on Form 10-K.

## PART I

### ITEM 1. BUSINESS

#### General Information

Artesian Resources Corporation operates as the holding company of eight wholly-owned subsidiaries offering water, wastewater and engineering services on the Delmarva Peninsula. Our principal subsidiary, Artesian Water Company, Inc., is the oldest and largest investor-owned public water utility on the Delmarva Peninsula, and has been providing superior water service since 1905. We distribute and sell water, including water for public and private fire protection, to residential, commercial, industrial, governmental, municipal and utility customers throughout the states of Delaware, Maryland and Pennsylvania. In addition, we design and build water and wastewater infrastructure and provide contract water, wastewater and engineering services. Our Class A Non-Voting Common Stock is listed on NASDAQ Global Select Market and trades under the symbol "ARTNA."

Artesian Resources Corporation, or Artesian Resources, operates as the parent holding company of Artesian Water Company, Inc., or Artesian Water, Artesian Water Pennsylvania, Inc., or Artesian Water Pennsylvania, Artesian Water Maryland, Inc., or Artesian Water Maryland, Artesian Wastewater Management, Inc., or Artesian Wastewater,

Artesian Wastewater Maryland, Inc., or Artesian Wastewater Maryland, each a regulated public utility, and three non-regulated subsidiaries; Artesian Utility Development, Inc., or Artesian Utility, Artesian Development Corporation, or Artesian Development, and Artesian Consulting Engineers, Inc., or Artesian Engineers. The terms "we," "our" and the "Company" as used herein refer to Artesian Resources and its subsidiaries. The business activity conducted by each of our subsidiaries is discussed below under separate headings.

## Table of Contents

### Our Market

Our current market area is the Delmarva Peninsula. Our largest service area is primarily in the State of Delaware, which had a population of approximately 885,000 at July 1, 2009. According to the US Census Bureau, Delaware's population increased an estimated 13% from 2000 to 2009, as compared to the nationwide growth rate of approximately 9%. Substantial portions of Delaware, particularly outside of New Castle County, are not served by a public water or wastewater system and represent potential opportunities for Artesian Water and Artesian Wastewater to obtain new exclusive franchised service areas. We continue to focus resources on developing and serving existing service territories and obtaining new territories throughout the State.

Starting in 2007, we expanded our services into Maryland. Cecil County Maryland, or Cecil County, has designated the Interstate 95 corridor as a preferred growth area for business and residential expansion. In 2005, the federal Base Re-Alignment and Closure Commission, or BRAC, announced the relocation of approximately 14,000 jobs to nearby Aberdeen, Maryland by 2011. The Wilmington Metropolitan Area Planning Commission projects Cecil County will grow 61% between 2005 and 2030 and the Maryland Department of Planning projects that Cecil County will experience the highest rate of household growth through 2025 of any jurisdiction in the state. With so many new workers coming to the area in the next several years, as a result of the BRAC relocation implementation in 2011, Cecil County and other surrounding areas expect a significant increase in development.

We have entered into interconnection agreements for the sale of water with the towns of Elkton and Chesapeake City, Maryland. The Town of Elkton began taking a minimum of 50,000 gallons per day of water through the interconnection in July 2009 and may take a maximum of 200,000 gallons per day. At the Town of Elkton's request, the maximum daily take may be raised to 1.5 mgd, with the minimum required take set at one quarter of the requested maximum level. Additional approvals are necessary to construct the transmission line to Chesapeake City. We have also signed agreements with Cecil County to purchase specific water and wastewater facilities, along with an agreement with the Town of Port Deposit to purchase water assets, which are both discussed below. The existing water and wastewater systems in the Cecil County agreements serve approximately 3,400 customers, while the existing water system in the Town of Port Deposit serves approximately 280 customers.

In 2009, we added approximately 10 square miles of franchised water service area and approximately 6 square miles of franchised wastewater service area. We hold Certificate's of Public Convenience and Necessity, or CPCN's, for approximately 273 square miles of exclusive water service territory and approximately 23 square miles of wastewater service territory, most of which is in Delaware and some in Maryland. Our largest connected regional water system, consisting of approximately 98.6 square miles and 67,500 customers, is located in northern Delaware. A significant portion of our exclusive service territory in Delaware remains undeveloped, and if and when development occurs and there is population growth in these areas, along with the anticipated population growth in Maryland, we will increase our customer base by providing water and/or wastewater service to the newly developed areas and new customers.

### Subsidiaries

#### Artesian Water

Artesian Water, our principal subsidiary, is the oldest and largest public water utility in the State of Delaware and has been providing water service within the state since 1905. Artesian Water distributes and sells water to residential, commercial, industrial, governmental, municipal and utility customers throughout the State of Delaware. In addition, Artesian Water provides services to other water utilities, including operations and billing functions, and has contract operation agreements with 21 private and municipal water providers. As of December 31, 2009, we had approximately 76,900 metered customers and served a population of approximately 276,000 (including contract services), representing approximately 31% of Delaware's total population. We also provide water for public and

private fire protection to customers in our service territories.

3

---

Table of Contents

Artesian Water Maryland

Artesian Water Maryland began operations in August 2007 and has expanded its operations through the following acquisitions:

- Ø Carpenters Point Water Company – August 2007 acquisition of the Carpenters Point Water Company, which includes a 141 home community in Cecil County near the Interstate 95 growth corridor between Philadelphia and Baltimore and has sufficient groundwater supply and elevated water storage to serve additional customers in the undeveloped portions of its franchise and surrounding area.
  
- Ø Mountain Hill Water Company - August 2008 acquisition of Mountain Hill Water Company, which includes service rights to the entire 8,000 acres of undeveloped land in Cecil County's growth area and access to nearby planned business parks, or the Mountain Hill Service Area, and also provided Artesian Water Maryland the opportunity to serve future customers in the Principio Business Park, as well as the proposed 660 home residential development of Charlestown Crossing and the surrounding area. We currently serve three commercial accounts in the Principio Business Park, located within Cecil County's designated growth corridor. On June 4, 2009, the Maryland Public Service Commission, or MDPSC, approved installation of a water main to serve residents of Whitaker Woods, an existing 172 home development located adjacent to the Mountain Hill Service Area. As of December 31, 2009, 25 homes in Whitaker Woods were receiving water service. On September 9, 2009, the MDPSC approved Artesian Water Maryland's request to construct a water system to serve the first phase, consisting of 71 homes, in the Charlestown Crossing housing development.

In addition, Artesian Maryland has entered into the following agreements to further expand our service capabilities:

- Ø Cecil County Agreement - In October 2008, Artesian Water Maryland signed an agreement, or the Cecil County Purchase Agreement, to purchase from Cecil County all of Cecil County's rights, title and interest in and to the Meadowview, Pine Hills, Harbourview and the Route 7 water facilities and the associated parcels of real property, easement rights and water transmission and distribution systems at a price equal to the net asset value of the purchased assets, which was approximately \$2.2 million as of June 30, 2008, and assume certain liabilities at closing. This sum may be paid in cash at closing or, upon mutual agreement, by a note payable to Cecil County. In response to the Cecil County Purchase Agreement, the Appleton Regional Community Alliance, or Appleton Alliance, filed a petition with The Circuit Court of Cecil County, Maryland, or Circuit Court, in opposition to the transactions, which has delayed the closing. The Circuit Court decided in favor of Cecil County on July 24, 2009. On August 19, 2009, the Appleton Alliance filed an appeal of the Circuit Court's decision with the Maryland Court of Special Appeals. Upon the request of Cecil County, which was not opposed by the Appleton Alliance, the matter has been moved to the state's highest Court of Appeals and is scheduled for hearing in June 2010. Closing on this transaction is also subject to the approval of the MDPSC. The Cecil County Purchase Agreement may be terminated by either party, subject to certain exceptions, in the event of uncured breach by the other party, or if the closing has not occurred by December 31, 2009. Upon the mutual agreement of the parties, the closing date has been extended to December 31, 2010 pending a final judicial determination on the Appleton Alliance petition.
  
- Ø Town of Port Deposit - In December 2009, Artesian Water Maryland signed an agreement, or the Port Deposit Purchase Agreement, to purchase from the Town of Port Deposit, or Port Deposit, all of Port Deposit's assets used in providing potable water and water distribution and water meter services, or the Facilities, to the town. At the closing, Artesian Water Maryland will pay to Port Deposit \$250,000, less an initial \$25,000 deposit that was paid at the time of signing and any fees owed to Artesian Utility for operating the plant and equipment prior to closing. Artesian Water Maryland will also deliver a promissory note in the amount of \$800,000, or the Promissory Note, payable in four equal annual installments starting on the first day of July following the closing



and will be secured by the assets purchased under the Port Deposit Purchase Agreement and guaranteed by Artesian Resources. In addition, at the closing Artesian Water Maryland has agreed to assume Port Deposit's \$220,000 loan from the Maryland Water Quality Financing Administration, or MWQFA, either through the assumption of the loan agreement or through the execution of a promissory note to Port Deposit or the Second Promissory Note, based on the approval of the MWQFA. The Second Promissory Note, if applicable, will be secured by the purchased assets and guaranteed by Artesian Resources. Closing of this transaction is subject to the satisfaction of a number of closing conditions, including, among other matters, the completion of Artesian Resources' due diligence, the approval of the MDPSC, and approval of a franchise agreement from Cecil County. Closing on this transaction is expected to occur by May 31, 2010. However, if regulatory approvals have not been obtained by May 31, 2010, this date will be extended to a date mutually agreed by the parties. The existing water system subject to the Port Deposit Purchase Agreement serves approximately 280 customers and includes a water treatment facility with a capacity of up to approximately 500,000 gallons per day and a 500,000 gallon ground storage tank. The existing water system also has a water appropriation permit for withdrawals of up to 700,000 gallons per day from the Susquehanna River.

Table of Contents

Artesian Water Pennsylvania

Artesian Water Pennsylvania began operations upon receiving recognition as a regulated public water utility by the Pennsylvania Public Utility Commission, or PAPUC, in 2002. It provides water service to a residential community consisting of 38 customers in Chester County. Artesian Water Pennsylvania filed an application with the PAPUC to increase our service area in Pennsylvania, which was approved and a related order was entered on February 4, 2005. This application involved specific developments, in which we expect modest future growth. Home construction in these developments has not progressed yet pending resolution of developer related township approvals.

Artesian Wastewater

Artesian Wastewater is a regulated entity that owns wastewater collection and treatment infrastructure and provides wastewater services to customers in Delaware as a regulated public wastewater service company. Artesian Wastewater currently owns and operates five wastewater treatment facilities, which are capable of treating approximately 750,000 gallons per day and can be expanded to treat approximately 1.6 million gallons per day, or mgd. Artesian Wastewater currently provides wastewater service to eight communities in Sussex County. As of December 31, 2009, Artesian Wastewater provided wastewater services to 729 residential customers.

The preliminary engineering and design work was completed on a regional wastewater treatment and disposal facility that could provide service for up to 40,000 homes, or equivalencies, in the northern Sussex County area. This facility is strategically situated to provide service to the growing population in the Georgetown, Ellendale and Milton area, as well as to neighboring municipal systems. This facility was granted conditional use approval by Sussex County Council to serve the Elizabethtown subdivision of approximately 4,000 homes and 439,000 square feet of proposed commercial space, as well as seven additional projects comprising approximately 3,000 residential units. The facility will also be capable of offering wastewater services to local municipalities. Artesian Utility signed an agreement on June 30, 2008 with Northern Sussex Regional Water Recycling Complex, LLC, or NSRWRC, for the design, construction and operation of this facility. Once constructed, it will be operated by Artesian Wastewater.

In July 2008, Artesian Wastewater and the Town of Georgetown, or Georgetown, finalized a wastewater service agreement establishing a long term arrangement that will meet the future wastewater treatment and disposal needs in Georgetown's growth and annexation areas. Artesian Wastewater will provide up to 1 mgd of wastewater capacity for the town over the next 10 years.

Artesian Wastewater Maryland

Artesian Wastewater Maryland was incorporated on June 3, 2008 specifically for the purpose of executing the purchase agreements described below in order to provide regulated wastewater services in the State of Maryland.

Ø Meadowview Wastewater Facility - In October 2008, Artesian Wastewater Maryland signed an agreement, or the Meadowview Agreement, to purchase the Meadowview Wastewater Facility and the Highlands Wastewater Facility and the associated parcels of real property, easement rights and wastewater collection systems with respect to each facility from Cecil County at a price equal to the net asset value of the purchased assets, which was approximately \$7.8 million as of June 30, 2008, and assume certain liabilities at closing. The majority of the purchase price shall be paid by Artesian Wastewater Maryland's assumption of \$7.2 million due by Cecil County under a tax-exempt Cecil County Sanitary District Bond, Series 2004B, or the Bond. In the event that the net asset value of the purchased assets as of the closing exceeds the amount due under the Bond, then the positive difference (if any) shall be paid by Artesian Wastewater Maryland to Cecil County in cash at closing or, upon mutual agreement, by a note payable to Cecil County.

Ø Cherry Hill and Harbourview Wastewater Facilities - In October 2008, Artesian Wastewater Maryland signed an agreement, or the Cherry Hill Agreement, to purchase the Cherry Hill Wastewater Facility and the Harbourview Wastewater Facility and the associated parcels of real property, easement rights and wastewater collection systems with respect to each facility from Cecil County at a price equal to the net asset value of the purchased assets, which was approximately \$3.8 million as of June 30, 2008, and assume certain liabilities at closing. Cecil County shall immediately upon receipt of such payment, pay to its creditors an amount sufficient to pay all indebtedness of Cecil County in respect of the Cherry Hill and Harbourview Wastewater facilities, or the Indebtedness. If the amount of the purchase price under the Cherry Hill Agreement is less than the Indebtedness, Cecil County will out of its own funds any amount sufficient to pay and discharge in full the Indebtedness in excess of the purchase price. If the purchase price exceeds the amount of Indebtedness, the positive difference will be paid by Artesian Wastewater Maryland and may be financed through a note payable to Cecil County.

## Table of Contents

These asset purchase agreements with Cecil County are also subject to the petition filed by the Appleton Alliance described in the Artesian Water Maryland section above. As a result, closing will be delayed until the final judicial determination on the Appleton Alliance petition. Closing on these transactions is also subject to the approval of the MDPSC. Under each of the agreements, either party may terminate such agreement, subject to certain exceptions, in the event of uncured breach by the other party, or if the closing has not occurred by December 31, 2009. Upon the mutual agreement of the parties, the closing date has been extended to December 31, 2010 pending a final judicial determination regarding the Appleton Alliance petition.

### Artesian Utility

Artesian Utility was formed in 1996. It designs and builds water and wastewater infrastructure and provides contract water and wastewater services on the Delmarva Peninsula. Artesian Utility also evaluates land parcels, provides recommendations to developers on the size of water or wastewater facilities and the type of technology that should be utilized for treatment at such facilities, and operates 26 water and wastewater facilities in Delaware, Maryland and Pennsylvania for others. Artesian Utility also has several contracts with developers for design and construction of wastewater facilities within the Delmarva Peninsula, utilizing a number of different technologies for treatment of wastewater at each facility.

We currently operate several wastewater treatment facilities for the town of Middletown, in Southern New Castle County, or Middletown, under a 20-year contract that expires on February 1, 2021. The facilities include a 2.5 mgd and a 250,000 gallon per day wastewater treatment station. We also operate a wastewater disposal facility in Middletown in order to support the 2.5 mgd wastewater treatment station described above.

We currently provide contract water and wastewater operation services to private, municipal and governmental institutions in the southeastern part of Pennsylvania as a result of our acquisition of TMH Environmental Services, Inc., or TMH, in May 2007.

On June 30, 2008, Artesian Utility signed an agreement with Northern Sussex Regional Water Recycling Complex, LLC, or NSRWRC, for the design, construction and operation of the Northern Sussex Regional Water Recycling Complex, a wastewater treatment facility to be located in Sussex County, Delaware. NSRWRC was created for the purpose of developing the treatment facility site, which once constructed, will be operated by Artesian Wastewater.

In connection with the Meadowview Agreement and the Cherry Hill Agreement described above, in March 2009, Artesian Utility signed an agreement with the Cecil County Public Works in Cecil County, Maryland to operate the Meadowview Wastewater and Highlands Wastewater treatment and disposal facilities until Artesian Wastewater Maryland's purchase of the facilities is final. This agreement also employs Artesian Utility to operate two water supply and treatment stations and two booster stations in Cecil County. In addition, in connection with the Port Deposit Purchase Agreement, in March 2009 Artesian Utility signed an agreement with Port Deposit to operate and maintain a water system through August 2010, with three additional one-year renewal options, pending closing on the Port Deposit Purchase Agreement.

### Artesian Development

Artesian Development owns an approximately six-acre parcel of land zoned for office buildings located immediately adjacent to our corporate headquarters and 2 nine-acre parcels of land located in Sussex County.

In October 2007, Artesian Development purchased the approximately eighteen acres of land noted above, located on Route 9, west of the City of Lewes in Sussex County, Delaware. Artesian Development received a conditional use for this land from Sussex County to construct an office facility, as we continue to expand our operations in southern

Delaware. This conditional use also permits the construction of water treatment and wastewater facilities and elevated storage on the site to provide service to the area between Lewes and Georgetown, Delaware. Once permits and approvals to construct the facilities are received, appropriate agreements with the utility affiliates of Artesian Development for its use will be developed. In January 2008 we received the approved Soils Investigation Report and in July 2008 we received the approved Preliminary Groundwater Impact Assessment and Groundwater Mounding Analysis from the Delaware Department of Natural Resources and Environmental Control, or DNREC. We submitted designs to DNREC, along with supplying additional information to increase the number of units approved to be served at the site from 400 units to approximately 1,900 units. The permitting process is complete. Additional groundwater studies are currently underway that are designed to improve the phasing and implementation of the systems operation in accordance with DNREC requirements. We have current requests for service from four local developments.

## Table of Contents

### Artesian Engineers

Artesian Engineers provides engineering services to developers for residential and commercial development. On June 6, 2008, Artesian Engineers acquired all the assets of Meridian Architects and Engineers, or Meridian, a leading provider of engineering services in Delaware, for a purchase price of \$130,000. The acquisition included the assignment of certain current contract agreements to provide engineering services to developers and included services to be provided to Artesian Water. This acquisition provided Artesian Resources with enhanced design and engineering capabilities that we believe have decreased our reliance on outside engineering firms for similar services. In addition, we believe that Meridian's ability to offer engineering services to design on-site water and wastewater systems for developers, as well as offsite wastewater collection systems in Sussex County, provides additional revenues that are not weather sensitive.

### Other

Artesian Resources initiated a Water Service Line Protection Plan, or WSLP Plan, in March 2005. The WSLP Plan covers all parts, material and labor required to repair or replace participants' leaking water service lines up to an annual limit. As of December 31, 2009, approximately 14,000, or 20.3%, of our 69,000 eligible water customers had signed up for the WSLP Plan. The WSLP Plan was expanded in the second quarter of 2008 to include maintenance or repair to customers' sewer lines. This plan, the Sewer Service Line Protection Plan, or SSLP Plan, covers all parts, material and labor required to repair or replace participants' leaking or clogged sewer lines up to an annual limit. As of December 31, 2009, approximately 6,200, or 9.0%, of our 69,000 eligible customers had signed up for the SSLP Plan.

### Regulatory Matters

#### Overview

Our water and wastewater utility operations are subject to regulation by their respective state regulatory commissions, which have broad administrative power and authority to regulate rates charged for service, determine franchise areas and conditions of service, approve acquisitions, authorize the issuance of securities and other matters. The profitability of our utility operations is influenced, to a great extent, by the timeliness and adequacy of rate allowances we are granted by the respective regulatory commissions or authorities in the states in which we operate.

We are subject to regulation by the following state regulatory commissions: Artesian Water and Artesian Wastewater are subject to the regulatory jurisdiction of the DEPSC, Artesian Water Maryland and Artesian Wastewater Maryland are subject to the regulatory jurisdiction of the MDPSC and Artesian Water Pennsylvania is subject to the regulatory jurisdiction of the PAPUC.

#### Water and Wastewater Rates

Our regulated utilities periodically seek rate increases to cover the cost of increased operating expenses, increased financing expenses due to additional investments in utility plant and other costs of doing business. The timing of our rate increase requests are therefore dependent upon the estimated cost of the administrative process in relation to the investments and expenses that we hope to recover through the rate increase. We can provide no assurances that rate increase requests will be approved by applicable regulatory agencies; and, if approved, we cannot guarantee that these rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which we initially sought the rate increase.

Our water and wastewater utilities generate operating revenue from customers based on rates that are established by their respective state regulatory commissions through a rate-setting process that may include public hearings,

evidentiary hearings and the submission by the utility of evidence and testimony in support of the requested level of rates. In evaluating a rate case, state regulatory commissions typically focus on five areas: (i) the amount of investment in facilities considered “used and useful” in providing public service; (ii) the operating and maintenance costs and taxes associated with providing the service (typically by making reference to a representative 12-month period of time, known as a test year); (iii) the appropriate rate of return; (iv) the tariff or rate design that allocates operating revenue requirements equitably across the customer base; and (v) the quality of service the utility provides, including issues raised by customers.

7

---

## Table of Contents

In Delaware, utilities are permitted by law to place rates into effect, under bond, on a temporary basis pending completion of a rate increase proceeding. The first temporary increase may be up to the lesser of \$2.5 million on an annual basis or 15% of gross water sales. Should the rate case not be completed within seven months, by law, the utility may put the entire requested rate relief, up to 15% of gross water sales, in effect under bond until a final resolution is ordered and placed into effect. If any such rates are found to be in excess of rates the DEPSC finds to be appropriate, the utility must refund the portion found to be in excess to customers with interest. The timing of our rate increase requests are therefore dependent upon the estimated cost of the administrative process in relation to the investments and expenses that we hope to recover through the rate increase. We can provide no assurances that rate increase requests will be approved by applicable regulatory agencies; and, if approved, we cannot guarantee that these rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which we initially sought the rate increase.

In April 2008, Artesian Water filed a petition with the DEPSC to implement new rates to meet a requested increase in revenue of 28.8%, or approximately \$14.2 million, on an annualized basis. On July, 11, 2008, pursuant to the DEPSC's minimum filing requirements, Artesian filed a supplemental filing with the DEPSC to update financial schedules for actual experience through March 31, 2008 and to reflect additional changes affecting the requested increase. The overall result was a reduction to the requested increase in revenue of 1.5%, to 27.3% or approximately \$13.5 million, on an annualized basis.

As permitted by law, on June 21, 2008, we placed temporary rates into effect, designed to generate an increase in annual operating revenue of approximately 5.0%, or \$2.5 million on an annualized basis, until new rates were approved by the DEPSC. Also pursuant to law, on December 17, 2008, we placed temporary rates into effect, designed to generate an additional increase in annual operating revenue of approximately 10% or \$5.0 million on an annualized basis, given that the rate case had not been concluded in a seven month period.

In August 2009, Artesian Water, DEPSC, the Division of the Public Advocate and Christiana Care Health Services, Inc. entered into an agreement to settle Artesian Water's April 2008 application for an increase in rates. PSC Order No. 7657 was signed by the DEPSC on September 22, 2009, approving the settlement agreement, which made the existing 15% temporary increase in base rates permanent. Since the rate was equal to the 15% temporary increase in rates charged to customers since December 17, 2008, Artesian Water was not required to refund any amounts to customers. This settlement also included the agreement that Artesian Water will not apply for a further rate increase for an 18-month period from the date of the DEPSC's order closing this application. It was also agreed that the revenue recovered by Artesian Water pursuant to the settlement does not include any recovery of funds attributable to state income tax expense, as it is unlikely that any state income tax will be paid by Artesian Water during the rate effective period.

In March 2009, Artesian Wastewater filed an application with the DEPSC for approval of a uniform tariff applicable to all of our wastewater territories in Delaware. Previously, each time we added a new service territory, an application was required to be submitted to the DEPSC for rate approval. As a result of the July 7, 2009 DEPSC approval of our application, Artesian Wastewater is now permitted to apply its tariffed rates to any new service territories without prior DEPSC approval.

### Service Territory Expansion

A Certificate of Public Convenience and Necessity, or CPCN, grants a water or wastewater company the exclusive right to serve all existing and new customers within a designated area. The applicable state Public Service Commission has the authority to issue and revoke these CPCNs. In this Form 10-K, we may refer to CPCNs as "franchises" or "service territories."



For a water company, the applicable state Public Service Commission may grant a CPCN under circumstances where there has been a determination that the water in the proposed service area does not meet the regulations governing drinking water standards of the State Division of Public Health for human consumption or where the supply is insufficient to meet the projected demand. For a wastewater company, the applicable state Public Service Commission has jurisdiction over non-governmental wastewater utilities having fifty or more customers in the aggregate. A CPCN for water and wastewater utilities shall be granted by the applicable state Public Service Commission to applicants in possession of one of the following:

Øa signed service agreement with the developer of a proposed subdivision or development, which subdivision or development has been duly approved by the respective county government;

Øa petition requesting such service signed by a majority of the landowners of the proposed territory to be served; or

Øa duly certified copy of a resolution from the governing body of a county or municipality requesting the applicant to provide service to the proposed territory to be served.

## Table of Contents

CPCNs are not transferable. A water or wastewater utility that has a CPCN must obtain the approval of the applicable state Public Service Commission to abandon a service territory. Once a CPCN is granted to a water or wastewater utility, it may not be suspended or terminated unless the applicable state Public Service Commission determines in accordance with its rules and regulations that good cause exists for any such suspension or termination. Although Artesian has been granted an exclusive franchise for each of its existing water and wastewater systems, its ability to expand service areas can be affected by the applicable Public Service Commission awarding franchises to other regulated water or wastewater utilities with whom we compete for such franchises.

On March 20, 2007, the DEPSC entered Order No. 7142 which re-opened Regulation Docket No. 51. By this Order, the DEPSC proposed to repeal rules implemented in 2001 and replace them with new "Regulations Governing Certificates of Public Convenience and Necessity." The proposed rules addressed the content of how notifications are sent to landowners, the definitions for the "Proposed Service Area," and the requirement of the applying utility to certify that it will actually provide water services to a new proposed service territory within three years. If water service is not provided within the three year time frame, the proposed rule provides a mechanism for the DEPSC to determine whether the utility should be able to retain the new CPCN. In the March 2009 proceedings, the DEPSC recommended that a utility provide water service to a new proposed service territory within five years. Under the revised proposal a landowner could request the opportunity to opt-out of the CPCN if service has not been provided within five years. The utility would be entitled to a hearing before DEPSC on the opt-out request. On March 2, 2010, the DEPSC reached decisions on these proposed rules. They voted unanimously to not adopt any change regarding the proposed five-year opt out rule, but did approve changes to the definition of "Proposed Service Area." In the future, a Proposed Service Area will encompass either a single parcel or two or more contiguous parcels that will be provided water by the same system or main extension.

In Maryland, if we are seeking new franchise areas, we must first seek approval from the county government and this franchise area must be included in that county's master water and sewer plan. The authority to exercise these franchise areas must then be obtained from the MDPSC. If utilities want to construct a new plant, approvals must be obtained from the Maryland Department of the Environment, the county government and the MDPSC. Also, soil and erosion plans must be approved and easement agreements with affected parties must be obtained. The MDPSC also approves rates and charges for service, acquisitions, mergers, issuance of securities and other matters.

In December 2008, the MDPSC approved an application for Artesian Water Maryland to construct a water system from the Delaware state line, interconnecting with the Artesian Water system, to the Town of Elkton. The Town of Elkton agreed to take a minimum of 50,000 gallons per day and a maximum of 200,000 gallons per day. At the Town of Elkton's request, the maximum daily take may be raised to 1.5 mgd, with the minimum required take set at one quarter of the requested maximum level. The Town of Elkton started taking water in July 2009.

On June 4, 2009, the MDPSC approved Artesian Water Maryland's request to construct a water system to serve the 172 residents of the Whitaker Woods housing development located adjacent to the Mountain Hill Service Area. This expanded franchise area was approved by the MDPSC in the Mountain Hill acquisition and is subject to the Mountain Hill tariff rates. We began serving customers in this development in November 2009. On September 9, 2009, the MDPSC approved Artesian Water Maryland's request to construct a water system to serve 71 residents in the Charlestown Crossing housing development. Construction is expected to be completed mid-year 2010.

In December 2009, Artesian Water Maryland applied for approval from the MDPSC to exercise a franchise to provide water service to the Town of Port Deposit. This application also requested authority to finance the purchase of water system facilities, and to establish water service rates. We expect a decision mid-year 2010.

Environment

Our water and wastewater operations are subject to federal, state, and local requirements relating to environmental protection. The United States Environmental Protection Agency, or the EPA, the Delaware Department of Natural Resources and Environmental Control, or DNREC, and the Delaware Division of Public Health or the DPH, regulate the water quality of our treatment and distribution systems in Delaware, as do the EPA and the Maryland Department of the Environment, or MDE, with respect to our operations in Maryland. Chester Water Authority, which supplies water to Artesian Water through interconnections in northern New Castle County, is regulated by the Pennsylvania Department of Environmental Protection, as well as the EPA. We believe that we are in material compliance with all current federal, state and local water quality standards, including regulations under the federal Safe Drinking Water Act. However, if new water quality regulations are too costly, or if we fail to comply with such regulations, it could have a material adverse affect on our financial condition and results of operations.

## Table of Contents

The water industry is capital intensive, with the highest capital investment in plant and equipment per dollar of revenue among all utilities. Increasingly stringent drinking water regulations to meet the requirements of the Safe Drinking Water Act of 1974 have required the water industry to invest in more advanced treatment systems and processes, which require a heightened level of expertise. We are currently in full compliance with the requirements of the Safe Drinking Water Act. Even though our water utility was founded in 1905, the majority of our investment in infrastructure occurred in the last 30 years.

Under Delaware state laws and regulations, we are required to file applications with DNREC, for water allocation permits for each of our operating wells pumping greater than 50,000 gallons per day. We have 118 operating and 56 observation and monitoring wells in our systems. At December 31, 2009, we had allocation permits for 82 wells, permit applications pending for 13 wells, and 23 wells that do not require a permit. Our access to aquifers within our service territory is not exclusive. Water allocation permits control the amount of water that can be drawn from water resources and are granted with specific restrictions on water level draw down limits, annual, monthly and daily pumpage limits, and well field allocation pumpage limits. We are also subject to water allocation regulations that control the amount of water that we can draw from water sources. As a result, if new or more restrictive water allocation regulations are imposed, they could have an adverse effect on our ability to supply the demands of our customers, and in turn, our water supply revenues and results of operations. Our ability to supply the demands of our customers historically has not been affected by private usage of the aquifers by landowners or the limits imposed by the state of Delaware. Because of the extensive regulatory requirements relating to the withdrawal of any significant amounts of water from the aquifers, we believe that third party usage of the aquifers within our service territory will not interfere with our ability to meet the present and future demands of our customers.

In 2003, legislation was enacted in Delaware requiring all water utilities serving within northern New Castle County, Delaware to certify by July 2006, and each three years thereafter, that they have sufficient sources of self-supply to serve their respective systems. On June 30, 2006, Artesian Water filed our certification related to the adequacy of our water supply through 2009. After completion of their review, on July 24, 2007, the DEPSC accepted our certification of sufficient water supply. As required, we filed a new certification of self-sufficiency with the DEPSC on June 30, 2009, for the period through 2012. We expect final review by the DEPSC by the second quarter of 2010.

As required by the Safe Drinking Water Act, the EPA has established maximum contaminant levels for various substances found in drinking water to ensure that the water is safe for human consumption. These limits are known as Maximum Contaminant Levels and Maximum Residual Disinfection Levels. The EPA also regulates how often public water systems monitor their water for contaminants and report the monitoring results to the individual state agencies or the EPA. Generally, the larger the population served by a water system, the more frequent the monitoring and reporting requirements. The Safe Water Drinking Act applies to all 50 states.

DPH has set maximum contaminant levels for certain substances that are more restrictive than the maximum contaminant levels set by the EPA. The DPH is the EPA's agent for enforcing the Safe Drinking Water Act in Delaware and, in that capacity, monitors the activities of Artesian Water and reviews the results of water quality tests performed by Artesian Water for adherence to applicable regulations. Artesian Water is also subject to other laws regulating substances and contaminants in water, including the Lead and Copper Rule, rules for volatile organic compounds and the Total Coliform Rule. Because we have no surface water sources of supply that we treat for consumption, the Surface Water Treatment Rule generally does not apply to us.

Delaware enacted legislation in 1998 requiring water utilities to meet secondary water quality standards that include limitations on iron content, odor and other water quality-related issues that are not proven health risks but may be aesthetically objectionable for consumption. We believe our current treatment systems and facilities meet these secondary standards.

A normal by-product of our iron removal treatment facilities is a solid consisting of the iron removed from untreated groundwater plus residue from chemicals used in the treatment process. The solids produced at our facilities are either disposed directly into approved wastewater facilities or removed from our facilities by a licensed third party vendor. Management believes that compliance with existing federal, state or local laws and regulations regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has no material effect upon the business and affairs of the Company, but there is no assurance that such compliance will continue to not have a material effect in the future.

## Table of Contents

The MDE ensures that water quality and quantity at all public water systems in Maryland meet the needs of the public and are in compliance with federal and state regulations. The MDE also ensures that public drinking water systems provide safe and adequate water to all current and future users in Maryland, and that appropriate usage, planning, and conservation policies are implemented for Maryland's water resources. The MDE oversees the development of Source Water Assessments for water supplies, and issues water appropriation permits for public drinking water systems. In order to appropriate water for municipal, commercial, industrial or other non-domestic uses, a Water Appropriation Permit must be obtained. Issuance of the permit involves evaluating the needs of the user and the potential impact of the withdrawal on neighboring users and the water source in order to maximize beneficial use of the water of the State of Maryland. Permits for large appropriations often involve conducting pump tests to measure adequacy of an aquifer and safe yield of a well, or reviewing stream flow records to determine the adequacy of a surface water source. Regulations were finalized in 1999 that require all new community water systems to have sufficient technical, managerial and financial capacity to provide safe drinking water to their consumers prior to being issued a Construction Permit. Also, in 2007, capacity management guidance was finalized. Capacity limiting factors can include, source capacity, treatment capacity and appropriation permit quantity. As of December 31, 2009, we have 5 wells that pump groundwater to 2 separate water treatment facilities located in Cecil County, Maryland.

The Clean Water Act has established the foundation for wastewater discharge control in the United States. The Clean Water Act established a control program for ensuring that communities have clean water by regulating the release of contaminants into waterways. Permits that limit the amounts of pollutants discharged are required of all wastewater dischargers under the National Pollutant Discharge Elimination System permit program. The Clean Water Act also requires that wastewater treatment plant discharges meet a minimum of secondary treatment. The secondary treatment process can remove up to 90% of the organic matter in wastewater. Over 30% of the nation's wastewater treatment facilities produce cleaner discharges by providing even greater levels of treatment. We operate environmentally friendly wastewater systems that meet all requirements of federal, state and local standards.

## Other Regulatory Matters

Delaware statute permits water utilities to put into effect, on a semi-annual basis, increases related to specific types of distribution system improvements through a Distribution System Improvement Charge or DSIC. This charge is available to water utilities to be implemented between general rate increase applications that normally recognize changes in a water utility's overall financial position. The DSIC approval process is less costly when compared to the approval process for general rate increase requests. The DSIC rate applied between base rate filings is capped at 7.5% of the amount billed to customers under otherwise applicable rates and charges, and the DSIC rate increase applied can not exceed 5% within any 12-month period. In December 2007, Artesian Water filed an application with the DEPSC for approval to collect a 0.46% increase, effective January 1, 2008, to recover the costs of eligible non-revenue producing improvements made since the last rate increase in 2006. The DEPSC approved the DSIC effective January 1, 2008 subject to audit at a later date. During 2008, we earned approximately \$99,000 in DSIC revenue. On June 21, 2008, the Company discontinued the collection of DSIC pursuant to Delaware law which requires the Company to discontinue a DSIC when new base rates are put into effect. We did not have DSIC in effect during 2009. In November 2009, Artesian Water filed an application with the DEPSC for approval to collect a 0.34% increase, an estimated \$92,500, effective January 1, 2010. This will recover the costs of eligible non-revenue producing improvements made since the last rate increase in 2008. The DEPSC approved the DSIC effective January 1, 2010 subject to audit at a later date.

On April 10, 2006, the DEPSC made effective new rules under Regulation Docket 15 that govern the terms and conditions under which water utilities require advances or contributions from customers or developers. These regulations require that developers pay for all water facilities within a new development, with such funding recorded as contributions in aid of construction by the water utility. In addition, the utility is required to receive a contribution in aid of construction of \$1,500 for each new residential connection to its system towards the cost of water supply,

treatment and storage facilities. These regulations further require developers to fully pay for facilities to serve satellite systems. These required contributions are intended to place a greater burden upon new customers to pay for the cost of facilities required to serve them. On February 12, 2010, we filed the first of three required annual reports with the DEPSC, in order to demonstrate our compliance with Regulation Docket 15.

#### Sources of Water

We derive about 95% of our self-supplied groundwater from wells located in the Atlantic Coastal Plain. The remaining 5% comes from wells in the Piedmont Province. We use a variety of treatment methods, including aeration, pH adjustment, chlorination, fluoridation, arsenic removal, nitrate removal and iron removal, to meet federal, state and local water quality standards. Additionally, a corrosion inhibitor is added to all of our self-supplied groundwater and most of the supply from interconnections. We have 56 different water treatment facilities in our Delaware systems. All water supplies that we purchase from neighboring utilities are potable. Based on our experience, we believe that the costs of treating groundwater are significantly lower than those of treating surface water.

## Table of Contents

Our primary sources of water are our wells that pump groundwater from aquifers and other formations. To supplement our groundwater supply, we purchase surface water through interconnections only in the northern service area of our New Castle County, Delaware system. The purchased surface water is blended with our groundwater supply for distribution to our customers. Nearly 85% of the overall 7.1 billion gallons of water we distributed in all of our Delaware systems during 2009 came from our groundwater wells, while the remaining 15% came from interconnections with other utilities and municipalities. During 2009, our average rate of water pumped was approximately 16.4 million gallons per day, or mgd, from our groundwater wells and approximately 3.0 mgd was supplied from interconnections. Our peak water supply capacity currently is approximately 59.0 mgd. We believe that we have in place sufficient capacity to provide water service for the foreseeable future to all existing and new customers in all of our service territories.

### Interconnections and Storage

Most of our New Castle County, Delaware water system is interconnected. In the remainder of the State of Delaware, we have several satellite systems that have not yet been connected by transmission and distribution facilities. We intend to join these systems into larger integrated regional systems through the construction of a transmission and distribution network as development continues and our expansion efforts provide us with contiguous exclusive service territories. In Maryland, we have an interconnection that connects with the Artesian Water system from the Delaware state line to the Town of Elkton, providing up to 1.5 mgd.

We have 20 interconnections with 2 neighboring water utilities and 5 municipalities that provide us with the ability to purchase or sell water. An interconnection agreement with the Chester Water Authority has a "take or pay" clause requiring us to purchase 1.095 billion gallons annually. During the fiscal year ended December 31, 2009, we used the minimum draw under this agreement. The Chester Water Authority agreement, which expires December 31, 2021, provides for the right to extend the term of this agreement through and including December 31, 2047, at our option, subject to the approval of the Susquehanna River Basin Commission. All of the interconnections provide Artesian Water the ability to sell water to neighboring water utilities or municipalities.

As of December 31, 2009, we were serving customers through approximately 1,124 miles of transmission and distribution mains. Mains range in diameter from two inches to twenty-four inches, and most of the mains are made of ductile iron or cast iron. We supply public fire protection service through approximately 5,286 hydrants installed throughout our service territories.

We have 29 storage tanks in Delaware, most of which are elevated, providing total system storage of 42 million gallons. We have developed and are using an Aquifer Storage and Recovery, or ASR, system in New Castle County Delaware. Our ASR system provides approximately 130 million gallons of storage capacity, which can be withdrawn at a rate of approximately 1 mgd. At some locations, we rely on hydropneumatic tanks to maintain adequate system pressures. Where possible, we combine our smaller satellite systems with systems having elevated storage facilities. In Cecil County, Maryland we have 2 elevated storage tanks capable of storing approximately 0.6 million gallons.

### Additional General Information

#### Seasonality

Substantially all of our water customers are metered, which allows us to measure and bill for our customers' water consumption. Demand for water during the warmer months is generally greater than during cooler months due primarily to additional customer requirements for water in connection with cooling systems, swimming pools, irrigation systems and other outside water use. Throughout the year, and particularly during typically warmer months,



demand for water will vary with temperature and rainfall. In the event that temperatures during the typically warmer months are cooler than expected, or there is more rainfall than expected, the demand for water may decrease and our revenues may be adversely affected.

Table of Contents

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 additional water and wastewater services is subject to competition from other public utilities, municipalities and other entities. Even though our regulated utilities have been granted an exclusive franchise for each of our existing community water and wastewater systems, our ability to expand service areas can be affected by the DEPSC, the MDPSC or the PAPUC, awarding franchises to other regulated water or wastewater utilities with whom we compete for such franchises.

Employees

The Company has no collective bargaining agreements with any of its employees, and its work force is not union organized or union represented. As of December 31, 2009, we employed 226 full-time and 9 part-time employees. Of these employees, 19 were officers and managers; 141 were employed as operations personnel, including engineers, technicians, draftsman, maintenance and repair persons, meter readers and utility personnel; and 60 were employed in the accounting, budgeting, information systems, human resources, customer relations and public relations. The remaining 15 employees were administrative personnel. In addition, we have 12 employees that accepted continued employment with the Company after the Meridian acquisition in June 2008. We believe that our employee relations are good.

Available Information

We are a Delaware corporation with our principal executive offices located at 664 Churchmans Road, Newark, Delaware, 19702. Our telephone number is (302) 453-6900 and our website address is [www.artesianwater.com](http://www.artesianwater.com). We make available free of charge through the Investor Information section of our website our Code of Ethics, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. We include our website address in this Annual Report on Form 10-K only as an inactive textual reference and do not intend it to be an active link to our website.

We file our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Exchange Act electronically with the Securities and Exchange Commission, SEC. The public may read or copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC, 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site, [www.sec.gov](http://www.sec.gov), that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Table of Contents

ITEM 1A. RISK FACTORS

We are exposed to a variety of risks and uncertainties. Most are general risks and uncertainties applicable to all water utility companies. Our financial position and results of operations may be affected by factors that are either not currently known to us or which we currently consider immaterial to our business. We describe below some of the specific known risk factors that could negatively affect our business, financial condition or results of operations. If one or more of these or other risks or uncertainties materialize, actual results may vary materially from our projections. All forward-looking statements made by us in this Annual Report to the Securities and Exchange Commission on Form 10-K, in our Annual Report to Shareholders and in our subsequently filed quarterly and current reports to the Securities and Exchange Commission, as well as in our press releases and other public communications, are qualified by the risks described below.

Our operating revenue is primarily from water sales. The rates that we charge our customers are subject to the regulations of the Public Service Commissions in the states in which we operate. Additionally, our business requires significant capital expenditures on an annual basis and these expenditures are made for additions and replacement of property. If a Public Service Commission disapproves or is unable to timely approve our requests for rate increase or approves rate increases that are inadequate to cover our investments or increased costs, our profitability may suffer.

We file rate increase requests, from time to time, to recover our investments in utility plant and expenses. Once a rate increase petition is filed with a Public Service Commission, the ensuing administrative and hearing process may be lengthy and costly. We can provide no assurances that any future rate increase request will be approved by the DEPSC, MDPSC or PAPUC, and if approved, we cannot guarantee that these rate increases will be granted in a timely manner and/or will be sufficient in amount to cover the investments and expenses for which we initially sought the rate increase.

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

Demand for water during warmer months is generally greater than during cooler months primarily due to additional customer requirements in irrigation systems, swimming pools, cooling systems and other outside water use. In the event that temperatures during typically warmer months are cooler than normal, or when rainfall is more than normal, the demand for our water may decrease and adversely affect our revenues.

Drought conditions and government imposed water use restrictions may impact our ability to serve our current and future customers, and may impact our customers' use of our water, which may adversely affect our financial condition and results of operations.

We believe that we have in place sufficient capacity to provide water service for the foreseeable future to all existing and new customers in all of our service territories. However, severe drought conditions could interfere with our sources of water supply and could adversely affect our ability to supply water in sufficient quantities to our existing and future customers. This may adversely affect our revenues and earnings. Moreover, governmental restrictions on water usage during drought conditions may result in a decreased demand for water, which may adversely affect our revenue and earnings.

Our operating costs could be significantly increased if new or stricter regulatory standards are imposed by Federal and State Environmental agencies.

Our water and wastewater services are governed by various federal and state environmental protection and health and safety laws and regulations, including the federal Safe Drinking Water Act, the Clean Water Act and similar state laws. These federal and state regulations are issued by the United States Environmental Protection Agency and state

environmental regulatory agencies. Pursuant to these laws, we are required to obtain various water allocation permits and environmental permits for our operations. The water allocation permits control the amount of water that can be drawn from water resources. New or stricter water allocation regulations can adversely affect our ability to meet the demands of our customers. While we have budgeted for future capital and operating expenditures to maintain compliance with these laws and our permits, it is possible that new or stricter standards would be imposed that will raise our operating costs. Thus, we can provide no assurances that our costs of complying with, or discharging liability under current and future environmental and health and safety laws will not adversely affect our business, results of operations or financial condition.

Table of Contents

We are subject to risks associated with the collection, treatment and disposal of wastewater.

Wastewater collection, treatment and disposal involve various unique risks. If collection or treatment systems fail, overflow, or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, causing damage to persons or property, injury to aquatic life and economic damages, which may not be recoverable in fees. This risk is most acute during periods of substantial rainfall or flooding, which are common causes of sewer overflow and system failure. Liabilities resulting from such damages and injuries could materially and adversely affect the Company's results of operations and financial condition.

Turnover in our management team could have an adverse impact on our business or the financial market's perception of our ability to continue to grow.

Our success depends significantly on the continued contribution of our management team both individually and collectively. The loss of the services of any member of our management team or the inability to hire and retain experienced management personnel could harm our operating results.

We face competition from other water and wastewater utilities for the acquisition of new exclusive service territories.

Water and wastewater utilities competitively pursue the right to exclusively serve territories in Delaware and Maryland by entering into agreements with landowners, developers or municipalities and, under current law, then applying to the DEPSC or the MDPSC for a CPCN, which grants a water or wastewater utility the exclusive right to serve all existing and new customers of a water or wastewater utility within a designated area. Typically, water and wastewater utilities enter into agreements with developers who have approval from county governments with respect to proposed subdivisions or developments. Once a CPCN is granted to a water or wastewater utility, generally it may not be suspended or terminated unless the DEPSC or MDPSC determines in accordance with its rules and regulations that good cause exists for any such suspension or termination. Therefore, we face competition from other water and wastewater utilities as we pursue the right to exclusively serve territories. If we are unable to enter into agreements with landowners, developers or municipalities and secure CPCNs for the right to exclusively serve territories in Delaware or Maryland, our ability to expand may be significantly impeded.

We depend on the availability of capital for expansion, construction and maintenance. Weaknesses in capital and credit markets may limit our access to capital.

Our ability to continue our expansion efforts and fund our utility construction and maintenance program depends on the availability of adequate capital. There is no guarantee that we will be able to obtain sufficient capital in the future on favorable terms and conditions for expansion, construction and maintenance. Recent economic conditions and disruptions have caused substantial volatility in capital markets, including credit markets and the banking industry and have increased the cost and significantly reduced the availability of credit from financing sources, which may continue or worsen in the future. In the event our lines of credit are not extended or we are unable to refinance our first mortgage bonds when due and the borrowings are called for payment, we will have to seek alternative financing sources, although there can be no assurance that these alternative financing sources will be available on terms acceptable to us. In the event we are unable to obtain sufficient capital, our expansion efforts could be curtailed, which may affect our growth and may affect our future results of operations.

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

A general economic downturn such as the one the U.S. economy recently experienced may lead to a number of impacts on our business that may materially and adversely affect our financial condition and results of operations. Such impacts may include a reduction in discretionary and recreational water use by our residential water

customers, particularly during the summer months; a decline in usage by industrial and commercial customers as a result of decreased business activity and commerce in our customers' businesses; an increased incidence of customers' inability, bankruptcy or delay in paying their bills which may lead to higher bad debt expense and reduced cash flow; and a lower natural customer growth rate may result as compared to what had been experienced before the economic downturn due to a decline in new housing starts and a possible slight decline in the number of active customers due to housing vacancies or abandonments.

## Table of Contents

Any future acquisitions we undertake or other actions to further grow our water and wastewater business may involve risks.

An element of our growth strategy is the acquisition and integration of water and wastewater systems in order to broaden our current service areas, and move into new ones. It is our intent, when practical, to integrate any businesses we acquire with our existing operations. The negotiation of potential acquisitions as well as the integration of acquired businesses could require us to incur significant costs and cause diversion of our management's time and resources. We may not be successful in the future in identifying businesses that meet our acquisition criteria. The failure to identify such businesses may limit the rate of our growth. In addition, future acquisitions or expansion of our service areas by us could result in:

- Ø Dilutive issuance of our equity securities;
- Ø Incurrence of debt and contingent liabilities;
- Ø Difficulties in integrating the operations and personnel of the acquired businesses;
- Ø Diversion of our management's attention from ongoing business concerns;
- Ø Failure to have effective internal control over financial reporting;
- Ø Shuffling of human resources; and
- Ø Other acquisition-related expense

Some or all of these items could have a material adverse effect on our business and our ability to finance our business and comply with regulatory requirements. The businesses we acquire in the future may not achieve sales and profitability that would justify our investment.

We are dependent on the continuous and reliable operation of our information technology systems.

We rely on our information technology systems in connection with the operation of our business, specifically with respect to customer service and billing, managing construction projects, managing our financial records, tracking assets, remotely monitoring some of our plants and facilities and managing human resources, inventory and accounts receivable collections. A loss of these systems or major problems with the operation of these systems could affect our operations and have a significant material adverse effect on our results of operations.

Contamination of our water supply may result in disruption in our services and could lead to litigation that may adversely affect our business, operating results and financial condition.

Our water supplies are subject to contamination from naturally-occurring compounds as well as pollution resulting from man-made sources. Even though we monitor the quality of water on on-going basis, any possible contamination due to factors beyond our control could interrupt the use of our water supply until we are able to substitute it from an uncontaminated water source. Additionally, treating the contaminated water source could involve significant costs and could adversely affect our business. We could also be held liable for consequences arising out of human or environmental exposure to hazardous substances, if found, in our water supply. This could adversely affect our business, results of operations and financial condition.

Potential terrorist attacks may disrupt our operations and adversely affect our business, operating results and financial condition.

In the wake of the September 11, 2001 terrorist attacks, we have taken steps to increase security measures at our facilities and heighten employee awareness of threats to our water supply. We also have tightened our security measures regarding delivery and handling of certain chemicals used in our business. We are currently not aware of any specific threats to our facilities, operations or supplies, however, it is possible that we would not be in a position

to control the outcome of terrorist events, if they occur.



Table of Contents

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. - PROPERTIES

Our corporate headquarters are located at 664 Churchmans Road, Newark, Delaware and are owned by Artesian Water.

Artesian Development owns approximately 6 acres of land in New Castle County, Delaware zoned for office development and approximately 18 acres of land in Sussex County, Delaware for an office facility, water and wastewater treatment facilities and elevated water storage.

On June 30, 2008, Artesian Utility entered into an agreement with NSRWRC for the design, construction and operation of a wastewater treatment facility to be located in Sussex County Delaware. Pursuant to the terms of the June 2008 agreement between Artesian Utility and NSRWRC, NSRWRC purchased a 75 acre parcel of land for \$5 million using the proceeds from a \$10 million construction loan. The construction loan is secured by the land and guaranteed by Artesian Resources. NSRWRC is financially responsible for designing and building a treatment facility on this parcel of land and once constructed, this treatment facility will be operated by Artesian Wastewater.

Artesian Water owns land, transmission and distribution mains, pump facilities, treatment plants, storage tanks, meters, vehicles, land, easements and related equipment and facilities throughout Delaware, of which the majority is used for utility operations. Artesian Water Pennsylvania owns transmission and distribution mains. Artesian Water Maryland owns land, transmission and distribution mains, pump facilities and storage tanks. Artesian Wastewater owns treatment, disposal plants collection mains and lift stations. The following table indicates our utility plant as of December 31, 2009.

Utility plant comprises:

In thousands

	Estimated Useful Life (In Years)	2009
Utility plant at original cost		
Utility plant in service-Water		
Intangible plant	---	\$ 140
Source of supply plant	45-85	16,327
Pumping and water treatment plant	35-62	55,995
Transmission and distribution plant		
Mains	81	175,164
Services	39	28,533
Storage tanks	76	22,237
Meters	26	14,766
Hydrants	60	9,283
General plant	3-31	43,716
Utility plant in service-Wastewater		
Treatment and Disposal Plant	35-62	11,495
Collection Mains and Lift Stations	81	4,575
General plant	3-31	929

Property held for future use	---	1,932
Construction work in progress	---	6,457
		391,549
Less – accumulated depreciation		64,650
		\$ 326,899

In aggregate, we own land, rights-of-way and easements totaling approximately 722 acres. Substantially all of Artesian Water's utility plant, except the utility plant in the town of Townsend, Delaware, is pledged as security for First Mortgage Securities. As of December 31, 2009, no other utility plant has been pledged as security for loans.

Table of Contents

We believe that our properties are generally maintained in good condition and in accordance with current standards of good water and wastewater works industry practice. We believe that all of our existing facilities adequately meet current necessary production capacities and current levels of utilization.

## ITEM 3. – LEGAL PROCEEDINGS

There are no material legal proceedings pending at this time to which we or any of our subsidiaries is a party or to which any of our properties is the subject that are material or are expected to have a material effect on our financial position, results of operations or cash flows.

## ITEM 4. - [RESERVED]

## PART II

## ITEM 5. - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information for the Company's Common Equity

Artesian Resources' Class A Non-Voting Common Stock, or Class A Stock, is listed on NASDAQ Global Select Market and trades under the symbol "ARTNA." On March 2, 2010, the last closing sale price as reported by the NASDAQ Global Select Market was \$18.01 per share. On March 2, 2010, there were 810 holders of record of the Class A Stock. The following table sets forth, for the periods indicated, the high and low closing sale prices for the Class A Stock as reported by NASDAQ Global Select Market and the cash dividends declared per share.

## CLASS A NON-VOTING COMMON STOCK

	High	Low	Dividend Per Share
2008			
First Quarter	\$ 19.24	\$ 18.05	\$ 0.17
Second Quarter	19.00	18.00	0.18
Third Quarter	18.50	16.61	0.18
Fourth Quarter	16.84	13.95	0.18
2009			
First Quarter	\$ 16.19	\$ 12.95	\$ 0.18
Second Quarter	16.44	13.90	0.18
Third Quarter	17.83	16.06	0.18
Fourth Quarter	18.61	15.65	0.19

Our Class B Voting Stock, or Class B Stock, is quoted on the OTC Bulletin Board under the symbol "ARTNB.OB." There has been a limited and sporadic public trading market for the Class B Stock. As of March 2, 2010, the last reported trade of the Class B Stock on the OTC Bulletin Board was at a price of \$18.00 per share on February 17, 2010. As of March 2, 2010, we had 179 holders of record of the Class B Stock. The Class B shares are paid the same dividend as the Class A shares noted in the table above.

## Recent Sales of Unregistered Securities

During the quarter ended December 31, 2009, we did not issue any unregistered shares of our Class A or Class B Stock.

18

---

Table of Contents

## Equity Compensation Plan Information

The following table provides information on the shares of our Class A Stock that may be issued upon exercise of outstanding stock options as of December 31, 2009 under the Company's stockholder approved stock plans.

## Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	497,889	\$ 15.91	500,250
Equity compensation plans not approved by security holders	---	---	---
<b>Total</b>	<b>497,889</b>		<b>500,250</b>

The following graph compares the percentage change in cumulative shareholder return on the Company's Class A common stock with the Standard & Poor's 500 Stock Index and Peer Group (as defined below) since December 2004 (assuming a \$100 investment on December 31, 2004, and the reinvestment of any dividends):

## INDEXED RETURNS

Company Name / Index	Base Period	Years Ending December 31				
	2004	2005	2006	2007	2008	2009
Artesian Resources Corporation	100	108.38	111.39	110.82	96.97	116.85
S&P 500 Index	100	104.91	121.48	128.16	80.74	102.11
Peer Group	100	131.54	131.76	126.47	122.05	121.60

The Peer Group includes American States Water Company, American Water Works Company, Inc., Aqua America, Inc., California Water Service Group, Connecticut Water Service, Inc., Middlesex Water Company, Pennichuck Corporation, SJW Corporation, Southwest Water Company, and York Water Company.

Table of Contents

## ITEM 6. - SELECTED FINANCIAL DATA

The selected statement of operations and balance sheet data shown below were derived from our consolidated financial statements. The consolidated statement of operations data for the years ended December 31, 2009, 2008 and 2007 and the consolidated balance sheet data as of December 31, 2009 and 2008 have been derived from our audited financial statements included elsewhere in this Annual Report on Form 10-K. The consolidated statement of operations data for the years ended December 31, 2006 and 2005 and the consolidated balance sheet data as of December 31, 2007, 2006 and 2005 have been derived from audited consolidated financial statements which are not included in this Annual Report on Form 10-K. You should read this selected financial data together with our consolidated financial statements and related notes, as well as the discussion under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations."

In thousands, except per share and operating data

2009                      2008                      2007                      2006                      2005

## STATEMENT OF OPERATIONS DATA

## Operating revenues

Water sales	\$53,871	\$50,101	\$48,461	\$44,272	\$41,638
Other utility operating revenue	2,208	2,019	1,699	1,268	1,073
Non-utility operating revenue	4,833	4,065	2,364	1,725	2,574
Sale of land	---	---	---	1,322	---
Total operating revenues	\$60,912	\$56,185	\$52,524	\$48,587	\$45,285

## Operating expenses

Operating and maintenance	\$32,368	\$30,871	\$28,594	\$25,733	\$24,543
Depreciation and amortization	6,556	5,782	5,162	4,610	4,365
State and federal income taxes	4,860	4,427	4,134	3,887	3,347
Property and other taxes	3,483	3,199	2,868	2,562	2,389
Total operating expenses	\$47,267	\$44,279	\$40,758	\$36,792	\$34,644

Operating income	\$13,645	\$11,906	\$11,766	\$11,795	\$10,641
Other income, net	835	1,125	802	613	515
Total income before interest charges	\$14,480	\$13,031	\$12,568	\$12,408	\$11,156

Interest charges	\$7,218	\$6,613	\$6,305	\$6,337	\$6,121
------------------	---------	---------	---------	---------	---------

Net income	\$7,262	\$6,418	\$6,263	\$6,071	\$5,035
Dividends on preferred stock	---	---	---	---	---
Net income applicable to common stock	\$7,262	\$6,418	\$6,263	\$6,071	\$5,035

## Net income per share of common stock:

Basic	\$0.97	\$0.87	\$0.92	\$1.00	\$0.84
Diluted	\$0.97	\$0.86	\$0.90	\$0.97	\$0.81

## Avg. shares of common stock outstanding

Basic	7,454	7,353	6,787	6,055	5,984
Diluted	7,512	7,427	6,936	6,235	6,182
Cash dividends per share of common stock	\$0.72	\$0.71	\$0.66	\$0.61	\$0.58

## BALANCE SHEET DATA

Utility plant, at original cost					
less accumulated depreciation	\$326,899	\$318,243	\$272,396	\$253,182	\$227,566
Total assets	\$358,895	\$348,706	\$294,589	\$269,360	\$243,854
Lines of credit	\$25,123	\$20,286	\$898	\$7,906	\$1,786
Long-term obligations and redeemable preferred stock, including current portions	\$107,555	\$109,071	\$92,073	\$92,383	\$92,680
Stockholders' equity	\$91,174	\$87,794	\$85,132	\$61,800	\$57,813
Total capitalization	\$197,199	\$195,349	\$176,889	\$153,873	\$150,192

## OPERATING DATA

Average water sales per customer	\$701	\$661	\$645	\$600	\$575
Water pumped (millions of gallons)	7,063	7,526	7,755	7,608	7,468
Number of metered customers	76,900	75,800	75,149	73,814	72,383
Miles of water main	1,124	1,112	1,086	1,051	1,001

Table of Contents

ITEM 7. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Our profitability is primarily attributable to the sale of water by Artesian Water. Gross water sales in Artesian Water comprise 88.3% of total operating revenues, the amount of which is subject to seasonal fluctuations, particularly during summer when water demand may vary with rainfall and temperature. In the event temperatures during the typically warmer months are cooler than expected, or rainfall is greater than expected, the demand for water may decrease and our revenues may be adversely affected. In 2009, demand for water declined due to the effects of an unusually wet weather pattern, thereby reducing the effect of the rate increases. We believe the effects of weather are short term and do not materially affect the execution of our strategic initiatives.

While water sales revenues are our primary source of revenues, we continue to seek growth opportunities to provide wastewater service in Delaware, Maryland and the surrounding areas. We also continue to explore and develop relationships with developers and municipalities in order to increase revenues from contract water and wastewater operations, wastewater management services and design and construction services. Our contract operations and other services provide a revenue stream that is not affected by changes in weather patterns. We plan to continue developing and expanding our contract operations and other services in a manner that complements our growth in water service to new customers. Our anticipated growth in these areas is subject to changes in residential and commercial construction, which may be affected by interest rates, inflation and general housing and economic market conditions. As a result of the general economic downturn, we may not be able to increase our contract operations and other services at the rate we had previously expected. We will continue to focus attention on expanding our contract operations opportunities with municipalities and private water providers in Delaware and surrounding areas.

Water Division

Overview

Artesian Water, Artesian Water Maryland and Artesian Water Pennsylvania provide water service to residential, commercial, industrial, governmental, municipal and utility customers. Gross water sales in Artesian Water, our largest operating subsidiary, accounted for approximately 88.3% of our total operating revenues in 2009 and serves approximately 31% of Delaware's total population. Increases in the number of customers served contributed to increases in our operating revenue. As of December 31, 2009, we had approximately 76,900 metered water customers in Delaware, an increase of approximately 1,000 compared to December 31, 2008, while the number of metered customers in Maryland and Pennsylvania remained consistent with 2008.

2009 Operational Highlights

Rate Case Settlement

In August 2009, Artesian Water, DEPSC, the Division of the Public Advocate and Christiana Care Health Services, Inc. entered into an agreement to settle Artesian Water's April 2008 application for an increase in rates. PSC Order No. 7657 was signed by the DEPSC on September 22, 2009, approving the settlement agreement, which made the existing 15% temporary increase in base rates permanent. Since the rate was equal to the 15% temporary increase in rates charged to customers since December 17, 2008, Artesian Water was not required to refund any amounts to customers. This settlement also included the agreement that Artesian Water will not apply for a further rate increase for an 18-month period from the date of the DEPSC's order closing this application. It was also agreed that the revenue recovered by the Company pursuant to the settlement does not include any recovery of funds attributable to



state income tax expense, as it is unlikely that any state income tax will be paid by Artesian Water during the rate effective period.

21

---

## Table of Contents

### Other Highlights

In December 2009, Artesian Water Maryland signed an agreement, or the Port of Deposit Purchase Agreement, to purchase from the Town of Port Deposit, or Port Deposit, all of Port Deposit's assets used in providing potable water and water distribution and water meter services to the town. The closing of this transaction is subject to the satisfaction of a number of closing conditions, among other matters, the completion of Artesian Resources' due diligence, the approval of the MDPSC, and the approval of a franchise agreement from Cecil County. In December 2009, Artesian Water Maryland applied for approval from the MDPSC to exercise a franchise to provide water service to the town. This application also requested authority to finance the purchase of water system facilities and to establish water service rates. We expect a decision mid-year 2010.

In October 2008, Artesian Water Maryland signed an agreement with Cecil County to purchase four water facilities. In opposition to Cecil County's sale of the water facilities, the Appleton Regional Community Alliance, or Appleton Alliance, filed a petition with The Circuit Court of Cecil County, Maryland, or Circuit Court, challenging the proposed transfer of certain Cecil County property and assets to Artesian, delaying the closing of this transaction until a final judicial determination is received. The Circuit Court decided in favor of Cecil County on July 24, 2009. On August 19, 2009, the Appleton Alliance filed an appeal of the Circuit Court's decision with the Maryland Court of Special Appeals. Upon the request of Cecil County, which was not opposed by the Appleton Alliance, the matter has been moved to the state's highest Court of Appeals and is scheduled for hearing in June 2010. Closing on this transaction is also subject to the approval of the MDPSC. Under each of the agreements, either party may terminate such agreement, subject to certain exceptions, in the event of uncured breach by the other party, or if the closing has not occurred by December 31, 2009. Upon the mutual agreement of the parties, the closing date has been extended to December 31, 2010 pending a final judicial determination regarding the Appleton Alliance petition.

In December 2008, the MDPSC approved an application for Artesian Water Maryland to construct a water system from the Delaware state line, interconnecting with the Artesian Water system, to the Town of Elkton. The Town of Elkton agreed to take a minimum of 50,000 gallons per day and a maximum of 200,000 gallons per day. At the Town of Elkton's request, the maximum daily take may be raised to 1.5 mgd, with the minimum required take set at one quarter of the requested maximum level. The Town of Elkton started taking water in July 2009.

In June 2009, the MDPSC approved Artesian Water Maryland's request to construct a water system to serve the 172 residents of the Whitaker Woods housing development located adjacent to the Mountain Hill Service Area. This expanded franchise area was approved by the MDPSC in the Mountain Hill acquisition and is subject to the Mountain Hill tariff rates. We began serving customers in this development in November 2009. In September 2009, the MDPSC approved Artesian Water Maryland's request to construct a water system to serve 71 residents in the Charlestown Crossing housing development. Construction is expected to be completed mid-year 2010.

### Wastewater Division

#### Overview

Artesian Wastewater owns wastewater infrastructure and began providing wastewater services in Delaware in July 2005. As of December 31, 2009, we had approximately 730 wastewater customers in Delaware, an increase of approximately 100 compared to December 31, 2008. Artesian Wastewater Maryland was incorporated on June 3, 2008 to provide regulated wastewater services in the State of Maryland pursuant to the purchase agreements described below. Our wastewater customers are billed a flat monthly fee, which contributes to providing a revenue stream unaffected by weather.

#### 2009 Operational Highlights

In October 2008, Artesian Wastewater Maryland signed two asset purchase agreements with Cecil County to purchase four wastewater facilities in Maryland. These asset purchase agreements with Cecil County are also subject to the petition filed by the Appleton Alliance described above. As a result, closing will be delayed until the final judicial determination on the Appleton Alliance petition. Closing on these transactions is also subject to the approval of the MDPSC. Under each of the agreements, either party may terminate such agreement, subject to certain exceptions, in the event of uncured breach by the other party, or if the closing has not occurred by December 31, 2009. Upon the mutual agreement of the parties, the closing date has been extended to December 31, 2010 pending a final judicial determination regarding the Appleton Alliance petition.

In March 2009, Artesian Wastewater filed an application with the DEPSC for approval of a uniform tariff applicable to all of our wastewater territories in Delaware. Previously, each time we added a new service territory, an application was required to be submitted to the DEPSC for rate approval. As a result of the July 7, 2009 DEPSC approval of our application, Artesian Wastewater is now permitted to apply its tariffed rates to any new service territories without prior DEPSC approval.

## Table of Contents

### Non-Regulated Division

#### Overview

Artesian Utility provides contract water and wastewater operation services to 25 private, municipal and governmental institutions. Artesian Utility currently operates several wastewater treatment facilities for the town of Middletown, in Southern New Castle County, or Middletown, under a 20-year contract that expires on February 1, 2021. The facilities include a 2.5 mgd and a 250,000 gallon per day wastewater treatment station. We also operate a wastewater disposal facility in Middletown in order to support the 2.5 mgd wastewater facility described above.

Artesian Development owns an approximately six-acre parcel of land zoned for office buildings located immediately adjacent to our corporate headquarters and approximately eighteen acres of land, in Sussex County, on which an office facility, a water treatment plant and a wastewater facility may be constructed.

Artesian Engineers, previously known as Meridian, provides engineering services to developers for residential and commercial development. The acquisition of Meridian in June 2008 included the assignment of certain current contract agreements to provide engineering services to developers and includes services to be provided to Artesian Water.

#### 2009 Operational Highlights

In March 2009, Artesian Utility signed an agreement with the Cecil County Public Works in Cecil County, Maryland to operate the Meadowview Wastewater and Highlands Wastewater treatment and disposal facilities until Artesian Wastewater Maryland's purchase of the facilities is closed. This agreement also employs Artesian Utility to operate two water supply and treatment stations and two booster stations in Cecil County.

In March 2009 Artesian Utility signed an agreement with the Town of Port Deposit in Cecil County, Maryland to operate and maintain a water system through August 2009, with three additional one-year renewal options, pending closing on the water asset purchase agreement between Artesian Water Maryland and Port Deposit.

#### Strategic Direction

Our strategy is to significantly increase customer growth, revenues, earnings and dividends by expanding our water and wastewater services across the Delmarva Peninsula. We remain focused on providing superior service to our customers and continuously seeking ways to improve our efficiency and performance. By providing both water and wastewater services, we believe we are positioned as the primary resource for developers and communities throughout the Delmarva Peninsula seeking to fill both needs simultaneously. We have a proven ability to acquire and integrate high growth, established entities, through which we have captured additional service territories that will serve as a base for future revenue. With recent acquisitions, we have successfully integrated their operations, infrastructure, technology and employees. We believe this experience presents a strong platform for further expansion and that our success to date also produces positive relationships and credibility with regulators, municipalities, developers and customers in both existing and prospective service areas.

In our regulated water division, our strategy is to focus on a wide spectrum of activities, which include identifying new and dependable sources of supply, developing the wells, treatment plants and delivery systems to get water to customers and educating customers on the wise use of water. Our strategy includes focusing our efforts to expand in new regions added to our Delaware service territory over the last 10 years. In addition, we believe growth will occur in the Maryland counties on the Delmarva Peninsula. We plan to expand our regulated water service area in the Cecil County designated growth corridor and to expand our business through the design, construction, operation and

management, as well as acquisition of additional water systems. The expansion of our exclusive franchise areas elsewhere in Maryland and the award of additional contracts will similarly enhance our operations within the state.

We believe that Delaware's generally lower cost of living in the region, availability of development sites in relatively close proximity to the Atlantic Ocean in Sussex County, and attractive financing rates for construction and mortgages have resulted, and will continue to result, in increases to our customer base. Substantial portions of Delaware are currently not served by a public water system, which could also assist in an increase to our customer base as systems are added. According to the US Census Bureau, Delaware's population increased an estimated 13% from 2000 to 2009, as compared to the nationwide growth rate of approximately 9%. General economic conditions, particularly in the housing market, resulted in a much lower rate of new customer additions than experienced in many years.

## Table of Contents

In our regulated wastewater division, we foresee significant growth opportunities and will continue to seek strategic partnerships and relationships with developers and municipalities to complement existing agreements for the provision of wastewater service in Delaware, Maryland, and the surrounding areas. Artesian Wastewater completed an agreement with Georgetown, Delaware in July 2008 to provide wastewater treatment and disposal services for Georgetown's growth and annexation areas. Artesian Wastewater will provide up to 1 mgd of wastewater capacity for the town over the next 10 years. Artesian Wastewater Maryland signed two agreements in October 2008 with Cecil County for the purchase of specific wastewater facilities. The closing of these transactions is delayed until a final judicial determination is received on the petition filed by the Appleton Alliance. Closing on these transactions is also subject to the approval of the MDPSC. Once completed, these acquisitions will add four wastewater facilities to our service area.

The general need for increased capital investment in wastewater systems is due to a combination of population growth, more protective water quality standards, and aging infrastructure. Our capital investment plan for the next five years includes projects for wastewater treatment plant improvements and additions in both Delaware and Maryland. Capital improvements are planned and budgeted to meet anticipated changes in regulations and needs for increased capacity related to projected growth. The DEPSC and MDPSC have generally recognized the operating and capital costs associated with these improvements in setting wastewater rates for current customers and capacity charges for new customers.

In our non-regulated division, we are actively pursuing opportunities to expand our contract operations. In Artesian Utility, we will seek to expand our contract design and construction services of water and wastewater facilities for developers, municipalities and other utilities and will continue to actively pursue water and wastewater operation contracts with municipalities across the Delmarva Peninsula. Artesian Development owns eighteen acres of land, located in Sussex County, Delaware, which will allow for construction of an office facility, water treatment facility and wastewater treatment facility. Artesian Engineers continues to provide engineering services to design on-site and off-site water and wastewater systems for developers. Also, with the expansion efforts in our water and wastewater divisions, we believe Artesian Engineers will provide increased design and engineering services.

## Protection Plans

In addition to services discussed above, Artesian Resources initiated a Water Service Line Protection Plan, or WSLP Plan, in March 2005. The WSLP Plan covers all parts, material and labor required to repair or replace participants' leaking water service lines up to an annual limit. As of December 31, 2009, approximately 14,000, or 20.3%, of our 69,000 eligible water customers had signed up for the WSLP Plan. The WSLP Plan was expanded in the second quarter of 2008 to include maintenance or repair to customers' sewer lines. This plan, the Sewer Service Line Protection Plan, or SSLP Plan, covers all parts, material and labor required to repair or replace participants' leaking or clogged sewer lines up to an annual limit. As of December 31, 2009, approximately 6,200, or 9.0%, of our 69,000 eligible customers had signed up for the SSLP Plan.

## Inflation

We are affected by inflation, most notably by the continually increasing costs required to maintain, improve and expand our service capability. The cumulative effect of inflation results in significantly higher facility costs compared to investments made 20 to 40 years ago, which must be recovered from future cash flows.

## CRITICAL ACCOUNTING POLICIES

All additions to plant are recorded at cost. Cost includes direct labor, materials, and indirect charges for such items as transportation, supervision, pension, medical, and other fringe benefits related to employees engaged in construction

activities. When depreciable units of utility plant are retired, the cost of retired property, together with any cost associated with retirement and less any salvage value or proceeds received, is charged to accumulated depreciation. Maintenance, repairs, and replacement of minor items of plant are charged to expense as incurred.

We record water service revenue, including amounts billed to customers on a cycle basis and unbilled amounts, based upon estimated usage from the date of the last meter reading to the end of the accounting period. As actual usage amounts are received, adjustments are made to the unbilled estimates in the next billing cycle based on the actual results. Estimates are made on an individual customer basis, based on one of three methods (the previous year's consumption in the same period, the previous billing period's consumption, or trending) and are adjusted to reflect current changes in water demand on a system-wide basis. While actual usage for individual customers may differ materially from the estimate, we believe the overall total estimate of consumption and revenue for the fiscal period will not differ materially from actual billed consumption, as the overall estimate has been adjusted to reflect any change in overall demand on the system for the period.

Table of Contents

We record accounts receivable at the invoiced amounts. The reserve for bad debts is the Company's best estimate of the amount of probable credit losses in our existing accounts receivable. The Company reviews the reserve for bad debts on a quarterly basis. Account balances are written off against the reserve when it is probable the receivable will not be recovered.

We review for impairment of our long-lived assets, including Utility Plant in Service, in accordance with the requirements of FASB ASC Topic 360. We also review regulatory assets for the continued application of FASB ASC Topic 980. Our review determines whether there have been changes in circumstances or events that have occurred that require adjustments to the carrying value of these assets. In accordance with FASB ASC Topic 980, adjustments to the carrying value of these assets would be made in instances where the inclusion in the rate-making process is unlikely.

Our regulated utilities record deferred regulatory assets under FASB ASC Topic 980, which are costs that may be recovered over various lengths of time as prescribed by the DEPSC, MDPSC and PAPUC. As the utility incurs certain costs, such as expenses related to rate case applications, a deferred regulatory asset is created. Adjustments to these deferred regulatory assets are made when the DEPSC, MDPSC or PAPUC determines whether the expense is recoverable in rates, the length of time over which an expense is recoverable, or, because of changes in circumstances, whether a remaining balance of deferred expense is recoverable in rates charged to customers. Adjustments to reflect changes in recoverability of certain deferred regulatory assets may have a material effect on our financial results.



Table of Contents

## Results of Operations

## 2009 Compared to 2008

## Operating Revenues

Revenues totaled \$60.9 million in 2009 and were 8.4% above revenues in 2008 of \$56.2 million, which is partially due to an increase of \$3.8 million, or 7.5% in total water sales revenue. The increase in water sales revenue in Artesian Water reflects a 5% temporary rate increase effective June 21, 2008 and a 10% temporary rate increase effective December 17, 2008. These temporary rate increases were made permanent on September 22, 2009, upon DEPSC approval of the rate settlement agreement. However, per capita demand declined for the year ended December 31, 2009 in comparison to the same period a year ago, primarily due to the effects of an unusually wet summer weather pattern, thereby reducing the effect of the temporary rate increases. We realized 88.4% of our total revenue in 2009 from the sale of water. During 2008 we realized 89.2% of our total revenue from water sales. Non-utility revenue totaled \$4.8 million in 2009 as compared to \$4.1 million in 2008. This increase is attributable to an increase of \$156,000 and \$376,000, respectively, in water and wastewater Service Line Protection, "SLP," Plan revenue earned by Artesian Resources. The SLP Plans provide coverage for all material and labor required to repair or replace participants' leaking water and leaking or clogged wastewater service lines up to an annual limit. Non-utility revenue also increased approximately \$164,000 in Artesian Engineers, which was acquired in June 2008, resulting in twelve months of revenue in 2009 versus seven months in 2008. The increase in non-utility revenue also reflects increased contract revenues in Artesian Utility of approximately \$72,000, primarily due to design and permitting services performed for a project in Middletown, Delaware and increased contract services performed for municipalities in Maryland.

## Percentage of Operating Revenues

	2009	2008	2007
Water Sales			
Residential	54.2	55.3	57.6
Commercial	21.3	21.4	22.3
Industrial	0.3	0.5	0.7
Government and Other	12.7	12.0	11.7
Other utility operating revenues	3.6	3.6	3.2
Non-utility operating revenues	7.9	7.2	4.5
Total	100.0	100.0	100.0

## Residential

Residential water service revenues in 2009 amounted to \$33.0 million, an increase of \$2.0 million, or 6.3% over the \$31.0 million recorded in 2008, primarily due to rate increases effective June 21, 2008 and December 17, 2008. However, per capita demand declined for the year ended December 31, 2009 in comparison to the year ended December 31, 2008, primarily due to the effects of an unusually wet summer weather pattern, thereby reducing the effect of the rate increases. The increase in 2009 follows an increase of \$0.8 million, or 3.0%, in 2008. The volume of water sold to residential customers decreased to 3,631 million gallons in 2009 compared to 3,935 million gallons in 2008, a 7.7% decrease, as a result of the unusually wet weather experienced in 2009. The number of residential customers served increased by 1,087, or 1.5%, in 2009.

## Commercial

Water service revenues from commercial customers in 2009 increased by 7.9%, from \$12.0 million in 2008 to \$13.0 million in 2009, primarily due to rate increases. We sold 2,093 million gallons of water to commercial customers in 2009, a 5.0% decrease as compared to 2,202 million gallons sold in 2008.

#### Industrial

Water service revenues from industrial customers decreased by 31.9%, from \$266,000 in 2008 to \$181,000 in 2009. The volume of water sold to industrial customers decreased by 51.5%, from 74 million gallons in 2008 to 36 million gallons in 2009, primarily as a result of decreased usage by an industrial customer that closed its facility mid-year 2009.

Table of Contents

## Government and Other

Government and other water service revenues in 2009 increased by 14.0%, from \$6.7 million in 2008 to \$7.7 million in 2009, primarily due to rate increases. Consumption for government and other customers decreased slightly in 2009 compared to 2008.

## Other Utility Operating Revenue

Other utility operating revenue, derived from contract operations, antenna leases on water tanks, finance/service charges and wastewater customer service revenues increased 9.4% in 2009, from \$2.0 million in 2008 to \$2.2 million in 2009. The increase, approximately \$189,000, is primarily the result of increased wastewater customer service revenues.

## Non-Utility Operating Revenue

Non-utility operating revenue, derived from non-regulated water and wastewater operations, increased from \$4.1 million in 2008 to \$4.8 million in 2009. This increase is attributable to an increase of \$156,000 and \$376,000, respectively, in water and wastewater SLP Plan revenue earned by Artesian Resources. Non-utility revenue also increased approximately \$164,000 in Artesian Engineers, which was acquired in June 2008, resulting in twelve months of revenue in 2009 versus seven months in 2008. The increase in non-utility revenue also reflects increased contract revenues in Artesian Utility of approximately \$72,000, primarily due to design and permitting services performed for a project in Middletown, Delaware and increased contract services performed for municipalities in Maryland.

## Operating Expenses

Operating expenses, excluding depreciation and taxes, increased approximately \$1.5 million, or 4.8%, to \$32.4 million in 2009. Payroll and benefits increased approximately \$677,000 due to increased annual merit payments, partially offset by increased capitalized labor and benefits in 2009. Purchased water expense increased approximately \$274,000, primarily due to a 7.8% increase in rates effective July 2008 and an 11.0% increase in rates effective in July 2009. Water treatment increased approximately \$271,000, primarily due to increased chemical costs. Repair and maintenance expense decreased approximately \$247,000, primarily the result of decreased gas and maintenance parts expenses. Administration expense decreased approximately \$269,000, primarily the result of a decrease in consulting services used. Non-utility operating expenses increased approximately \$686,000, primarily the result of more project activity in Artesian Utility as compared to the same period in 2008.

## Percentage of Operating and Maintenance Expenses

	2009	2008	2007
Payroll and Associated Expenses	46.7	46.8	46.7
Administrative	22.6	24.1	26.1
Purchased Water	10.0	9.6	9.7
Repair and Maintenance	6.1	7.2	7.6
Water Treatment	4.1	3.4	3.7
Non-utility Operating	10.5	8.9	6.2
Total	100.0	100.0	100.0

Depreciation and amortization expense increased \$774,000, or 13.4%, due to continuing investment in utility plant in service providing supply, treatment, storage and distribution of water and the addition of the new office building. Income tax expense increased \$433,000, or 9.8%, due to higher taxable income in 2009. Our total effective income tax rate, or ETR, for 2009 and 2008 was 40.0% and 40.6%, respectively.

## Table of Contents

### Other Income, Net

Our Allowance for Funds Used During Construction, or AFUDC, decreased \$346,000, or 45.6%, due to the general slowdown in the housing market, resulting in decreased long-term construction activity subject to AFUDC for the year ended December 31, 2009, compared to the same period in 2008. Miscellaneous Income increased \$56,000, primarily due to an increase in the income earned on our temporary investments.

### Interest Charges

Interest charges increased \$605,000 or 9.1%, in 2009, primarily due to an increase in long term debt in 2009 compared to 2008. In December 2008, we issued a First Mortgage Bond, Series S, in the amount of \$15 million at an interest rate of 6.73%. Offsetting the increase in long term debt is a decrease in short term debt interest. The average interest rate on our short term credit balance decreased from 3.4% in 2008 to 1.5% in 2009, while our average outstanding balance was \$5.7 million in 2009, compared to \$12.7 million in 2008.

### Net Income

For the year ended December 31, 2009, our net income applicable to common stock increased \$844,000, or 13.2%, compared to 2008. This increase was primarily due to higher operating income margins from our water utility business as well as our SLP Plan business and non-utility contract services. However, this increase in net income was adversely affected by decreased water demand, a result of the effects of weather associated with the increased rainfall experienced during the second and third quarters of 2009, therefore reducing the impact of our temporary rate increases.

### 2008 Compared to 2007

#### Operating Revenues

Revenues totaled \$56.2 million in 2008 and were 7.0% above revenues in 2007 of \$52.5 million, which is partially due to an increase of \$1.6 million, or 3.4% in total water sales revenue. The increase in water sales revenue in Artesian Water reflects a 1.0% increase in the number of customers served, rate increases placed in effect in 2007 and temporary rate increases of 5% and 10% placed into effect on June 21, 2008 and December 17, 2008, as permitted under Delaware law, until new rates are approved by the DEPSC. We realized 89.2% of our total revenue in 2008 from the sale of water. During 2007 we realized 92.2% of our total revenue from water sales. Non-utility revenue totaled \$4.1 million in 2008 as compared to \$2.4 million in 2007. This increase is attributable to increased contract revenues in Artesian Utility, primarily due to: increased soil evaluation and testing services totaling \$705,000; design services totaling \$284,000 performed for a developer in southern New Castle County, Delaware; additional water and wastewater operations contract revenue in Pennsylvania of \$269,000; and design and permitting services totaling \$250,000 performed for a developer in Sussex County, Delaware. The increase in non-utility revenue also reflects an increase of \$196,000 and \$179,000, respectively, in water and wastewater Service Line Protection Plan revenue earned by Artesian Resources. The Service Line Protection Plans provide coverage for all material and labor required to repair or replace participants' leaking water and leaking or clogged wastewater service lines up to an annual limit.

#### Residential

Residential water service revenues in 2008 amounted to \$31.0 million, an increase of \$0.8 million, or 3.0% over the \$30.2 million recorded in 2007, primarily due to rate increases effective January 1, 2007 and July 24, 2007 and a temporary rate increase of 5% placed in effect on June 21, 2008. The increase in 2008 follows an increase of \$3.1 million, or 11.4%, in 2007. The volume of water sold to residential customers decreased slightly to 3,935 million

gallons in 2008 compared to 3,947 million gallons in 2007. The number of residential customers served increased by 690, or 1.0%, in 2008. However, per capita demand has declined for the year ended December 31, 2008 in comparison to the year ended December 31, 2007, thereby reducing the effect of the temporary rate increase.

## Table of Contents

### Commercial

Water service revenues from commercial customers in 2008 increased by 2.8%, from \$11.7 million in 2007 to \$12.0 million in 2008, due to rate increases in 2007 and a temporary rate increase in 2008. We sold 2,202 million gallons of water to commercial customers in 2008, a marginal increase as compared to 2,197 million gallons sold in 2007.

### Industrial

Water service revenues from industrial customers decreased by 30.0%, from \$381,000 in 2007 to \$266,000 in 2008. The volume of water sold to industrial customers decreased by 36.0%, from 116 million gallons in 2007 to 74 million gallons in 2008, primarily as a result of decreased usage by one industrial customer.

### Government and Other

Government and other water service revenues in 2008 increased by 10.0%, from \$6.1 million in 2007 to \$6.7 million in 2008. This increase in revenue resulted from increased consumption by irrigation customers, slightly offset by a reduction in government agency consumption.

### Other Utility Operating Revenue

Other utility operating revenue, derived from contract operations, antenna leases on water tanks, finance/service charges and wastewater customer service revenues increased 18.8% in 2008, from \$1.7 million in 2007 to \$2.0 million in 2008. The increase, approximately \$224,000, is primarily the result of increased service charges derived from proactive policies for delinquent paying customers, which resulted in increased charges for the restoration of shut off service.

### Non-Utility Operating Revenue

Non-utility operating revenue, derived from non-regulated water and wastewater operations, increased from \$2.4 million in 2007 to \$4.1 million in 2008. This increase is attributable to increased contract revenues in Artesian Utility, primarily due to: increased soil evaluation and testing services totaling \$705,000; design services totaling \$284,000 performed for a developer in southern New Castle County, Delaware; additional water and wastewater operations contract revenue in Pennsylvania of \$269,000; and design and permitting services totaling \$250,000 performed for a developer in Sussex County, Delaware. This increase in non-utility revenue also reflects an increase of \$196,000 and \$179,000, respectively, in water and wastewater Service Line Protection Plan revenue earned by Artesian Resources.

### Operating Expenses

Operating expenses, excluding depreciation and taxes, increased approximately \$2.6 million, or 8.3%, to \$34.1 million in 2008. Payroll and benefits increased \$1.1 million due to increased staffing, pay increases and increased medical insurance premiums. Purchased water expense increased approximately \$181,000, primarily due to a 1.1% increase in rates effective July 2007 and a 7.8% increase in rates effective in July 2008. Non-utility operating expenses increased approximately \$957,000, primarily the result of more project activity in Artesian Utility as compared to the same period in 2007 and the addition of Artesian Engineers, which contributed approximately \$221,000 to the increase.

Depreciation and amortization expense increased \$620,000, or 12.0%, due to increases in our utility plant in service providing supply, treatment, storage and distribution of water and the addition of the new office building during 2008. Income tax expense increased \$293,000, or 7.1%, due to higher taxable income in 2008. Our total effective income tax rate, or ETR, for 2008 and 2007 was 40.6% and 39.8%, respectively.





## Table of Contents

### Other Income, Net

Our Allowance for Funds Used During Construction, or AFUDC, increased \$435,000, or 134.2%, as a result of higher long-term construction activity subject to AFUDC, of which a large portion is related to the new office building construction. Miscellaneous Income decreased \$112,000, primarily due to a decrease in the income earned on our temporary investments.

### Interest Charges

Interest charges increased \$308,000 or 4.9%, in 2008, primarily due to higher short term debt interest expense as a result of higher borrowing on our lines of credit in 2008 compared to 2007. The average interest rate on our short term credit balance decreased from 5.9% in 2007 to 3.4% in 2008, while our average outstanding balance was \$12.7 million in 2008, compared to \$5.3 million in 2007. In December 2008, we issued a First Mortgage Bond, Series S, in the amount of \$15 million at an interest rate of 6.73%.

### Net Income

For the year ended December 31, 2008, our net income applicable to common stock increased \$155,000, or 2.5%, compared to 2007. The increase in net income was primarily due to increases in Artesian Water operating revenues derived from the 2007 rate increases, a temporary rate increase of 5% in June 2008, an additional temporary rate increase of 10% in December 2008, revenues generated by our regulated wastewater operations and increased activity in contract operations of Artesian Utility.

### Liquidity and Capital Resources

#### Overview

Our primary sources of liquidity for the year ended December 31, 2009 were \$13.4 million provided by cash flow from operating activities, \$4.8 million in borrowing on our lines of credit, \$1.9 million in net contributions and advances from developers and \$1.4 million net proceeds from the issuance of common stock. Cash flow from operating activities is primarily provided by our utility operations, and is impacted by the timeliness and adequacy of rate increases and changes in water consumption as a result of year-to-year variations in weather conditions, particularly during the summer. A significant part of our ability to maintain and meet our financial objectives is to ensure that our investments in utility plant and equipment are recovered in the rates charged to customers. As such, from time to time we file rate increase requests to recover increases in operating expenses and investments in utility plant and equipment.

The amount outstanding on the Company's lines of credit was \$25.1 million, an increase of \$4.8 million over the amount outstanding as of December 31, 2008, compared to an increase of \$19.4 million for the year ended December 31, 2008 over the outstanding balance as of December 31, 2007. The reduction in overall borrowings during 2009 as compared to 2008 was primarily the result of lower investments made in utility plant in 2009. Decreases in accounts payable of \$0.9 million and decreases in accrued expenses of \$2.2 million are also associated with the Company's lower investment in utility plant.

We depend on the availability of capital for expansion, construction and maintenance. We rely on our sources of liquidity for investments in our utility plant and to meet our various payment obligations. We expect that our aggregate investments in our utility plant and systems in 2010 will be approximately \$17.4 million. Our total obligations related to interest and principal payments on indebtedness, rental payments and water service interconnection agreements for 2010 are anticipated to be approximately \$12.2 million. We expect to fund our

activities for the next year using our available cash balances, bank credit lines and projected cash generated from operations. Also, because of the favorable interest rates available to regulated water utilities, we plan to fund specific project activities for the next year using approximately \$3.9 million under the State Revolving Fund loan program in Delaware, which is discussed further below. We believe that internally generated funds along with existing credit facilities will be adequate to provide sufficient working capital to maintain normal operations and to meet our financing requirements. However, since part of our business strategy is to expand through strategic acquisitions, we may seek additional debt financing or issue additional equity securities to finance future acquisitions or for other purposes.

Table of Contents

## Investment in Plant and Systems

We invested \$17.4 million in capital expenditures during 2009 compared to \$45.1 million invested during the same period in 2008. The reduction in investment is due to the general slowdown in the housing market, resulting in decreased long-term construction activity. The reduction in investments in 2009 is also due to higher capital expenditures in 2008 of approximately \$11.5 million towards the construction of a new office building addition, another \$7.0 million invested into NSRWRC for land for the regional wastewater treatment facility and approximately \$4.8 million invested in the acquisition of Mountain Hill. The primary focus of Artesian Water's investment was to continue to provide high quality reliable service to our growing service territory.

We have invested \$1.3 million in 2009 to enhance or improve existing treatment facilities and for the rehabilitation of pumping equipment to better serve our customers. We invested approximately \$5.4 million in new transmission and distribution facilities, which includes \$2.3 million for new mains and \$0.7 million in our rehabilitation program for transmission and distribution facilities and replacing aging or deteriorating mains. We invested approximately \$1.2 million in mandatory utility plant expenditures, due to governmental highway projects, which require the relocation of water service mains. Developers financed \$1.6 million for the installation of water mains and hydrants in 2009 compared to \$2.7 million in 2008. We also invested \$1.8 million for renovations made to the main office building located in New Castle County and furniture and equipment related to the renovation. The investment in general plant also includes an additional investment of \$0.6 million for transportation equipment upgrades and \$0.5 million for computer hardware and software upgrades. An additional \$1.0 million was invested in wastewater projects in Sussex County, Delaware. Another \$0.8 million was invested into NSRWRC for the regional wastewater treatment facility. We also invested \$1.5 in transmission and distribution facilities in Cecil County, Maryland.

The following chart summarizes our investment in plant and systems over the past three fiscal years.

In thousands	2009	2008	2007
Source of supply	\$295	\$1,665	\$3,173
Treatment and pumping	1,044	6,094	1,196
Transmission and distribution	8,023	13,381	8,055
General plant and equipment	5,118	13,980	6,373
Developer financed utility plant	1,584	3,178	6,182
Wastewater facilities	964	490	2,081
NSRWRC	775	7,028	---
Allowance for Funds Used During Construction, AFUDC	(413 )	(759 )	(324 )
Total	\$17,390	\$45,057	\$26,736
Mountain Hill	---	4,772	---

We have planned to invest approximately \$17.4 million in utility plant in 2010. Developers are expected to finance an additional \$3.3 million in utility plant construction. Of the \$17.4 million we expect to invest in 2010, approximately \$7.6 million will be invested in transmission and distribution facilities. Approximately \$1.4 million of this amount will be invested in the relocations of facilities as a result of government mandates and renewals associated with the rehabilitation of aging infrastructure. We also plan to invest \$2.6 million in order to upgrade and automate our meter reading equipment. The remaining \$3.6 million of this investment in transmission and distribution facilities will mostly be to replace facilities and address service needs in growth areas of our service territory. In addition, we plan to invest another \$2.8 million for new treatment facilities, equipment and wells throughout Delaware and Maryland to identify, develop, treat and protect sources of water supply to assure uninterrupted service to our customers.

An additional expenditure of approximately \$0.8 million is anticipated to complete the renovation of our existing office building in New Castle County in 2010. We plan to invest \$4.3 million in general plant, which includes new corporate automation and transportation and equipment upgrades. Additionally, \$7.9 million is planned to be invested in Artesian Water Maryland and Artesian Wastewater Maryland following the purchase of water and wastewater assets in Maryland in 2010. Our projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

## Table of Contents

### Financing

We expect to fund our activities for the next twelve months using our available cash balances and bank credit lines, plus projected cash generated from operations.

We have several sources of liquidity to finance our investment in utility plant and other fixed assets. We estimate that the projected investment of approximately \$17.4 million will be financed by our operations and external sources, including a combination of capital investment as well as short-term borrowings under our revolving credit agreements discussed below. Also, because of the favorable interest rates available to regulated water utilities, we plan to fund specific project activities for the next year using approximately \$3.9 million under the State Revolving Fund loan program in Delaware. Developers are expected to finance, through contributions in aid of construction, an additional \$6.1 million of capital expenditures, which includes the installation of mains and hydrants in new developments.

Our cash flows from operations are primarily derived from water sales revenues and may be materially affected by changes in water sales due to weather and the timing and extent of increases in rates approved by state Public Service Commissions.

### Lines of Credit

At December 31, 2009, Artesian Water had two lines of credit of \$20 million each to meet temporary cash requirements. These revolving credit facilities are unsecured. As of December 31, 2009, we had \$27.1 million of available funds under these lines. The interest rate for borrowings under one of these lines is the London Interbank Offering Rate, or "LIBOR," plus 0.75%. The interest rate for borrowings under the other line of credit is the LIBOR plus 1.00%. Due to the execution of the agreements in January 2010 described below, the balances on these two lines were transferred to the new lines of credit and these lines of credit held by Artesian Water were terminated.

At December 31, 2009, Artesian Utility and Artesian Wastewater had lines of credit with a financial institution for \$3.5 million and \$10.0 million, respectively, to meet temporary cash requirements. These revolving credit facilities are unsecured. As of December 31, 2009, Artesian Wastewater had \$5.4 million of available funds while Artesian Utility had not borrowed funds under its line of credit. The interest rate for borrowings under each of these lines is the LIBOR plus 1.75%. Due to the execution of the agreements in January 2010 described below, the balance on the Artesian Wastewater line of credit was transferred to the new lines of credit and these lines of credit held by Artesian Wastewater and Artesian Utility were terminated.

On January 19, 2010, Artesian Resources and each of its subsidiaries entered into a Demand Line of Credit Agreement, or Demand Credit Agreement, with Citizens Bank, or Citizens. The Demand Credit Agreement provides for a \$40 million Demand Line of Credit which may be used for short-term working capital needs, investments in facilities or equipment or letters of credit only. As of January 31, 2010, there was \$20.4 million of available funds under this line of credit. The interest rate for borrowings under this line is based on LIBOR. The Demand Credit Agreement is a demand loan facility and therefore Citizens may demand payment for any outstanding amounts at any time. The term of this line of credit expires on the earlier of January 18, 2011 or any date on which Citizens demands payment.

On January 19, 2010, Artesian Water Company entered into a Revolving Credit Agreement with CoBank ACB, or CoBank. The Revolving Credit Agreement provides that CoBank will make loans to the Company from time to time, not to exceed \$20 million. The Revolving Credit Agreement allows for the financing of operations of Artesian Water and up to \$10 million for the operations of Artesian Water Maryland. As of January 31, 2010, Artesian Water Company had not borrowed funds under this line of credit. The interest rate for borrowings under this line is the LIBOR plus 1.50%. The term of this line of credit expires on January 18, 2011.

On June 30, 2008, Artesian Utility signed an agreement with Northern Sussex Regional Water Recycling Complex, LLC, or NSRWRC. Under the terms of the agreement, Artesian Resources acts as the guarantor of NSRWRC's \$10 million construction loan secured by land. As of December 31, 2009 NSRWRC had \$2.5 million of available funds under the construction loan. The interest rate on this guaranteed debt is variable based on the LIBOR Advantage Rate plus 225 basis points. In the event of a default by NSRWRC, Artesian Resources shall pay the bank the amount due of the obligations or, on demand of the bank, immediately deposit all amounts due under the obligation.

Table of Contents

Line of Credit Commitments	Commitment Due by Period			
	Less than 1 Year	1-3 Years	4-5 Years	Over 5 Years
In thousands				
Lines of Credit	\$25,123	\$-----	\$-----	\$-----

## Long Term Debt

On August 1, 2008, Artesian Water Maryland executed a promissory note in the amount of approximately \$2.3 million to Sunrise Holdings, L.P., or Sunrise, in connection with the Mountain Hill acquisition, that bears interest at a variable interest rate based upon the LIBOR plus 150 basis points. The note is payable in four equal annual installments, commencing on the first anniversary of the closing date. The first annual installment payment of \$0.6 million was made on August 1, 2009, the remaining principal balance due on this note, as of December 31, 2009, is \$1.7 million. The note is secured by a first lien security interest in all of Mountain Hill's assets in favor of Sunrise and is guaranteed by Artesian Resources.

Artesian Water's trust indentures, which set certain criteria for the issuance of new long-term debt, limit long-term debt, including the short-term portion thereof, to 66 % of total capitalization. Our debt to total capitalization, including the short term portion thereof, was 54.6% at December 31, 2009.

Contractual Obligations	Payments Due by Period					Total
	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years		
In thousands						
First Mortgage Bonds (Principal and Interest)	\$7,108	\$14,104	\$13,929	\$161,497	\$196,638	
State revolving fund loans	590	1,180	1,180	4,889	7,839	
Note Payable (Principal and Interest)	600	1,171	---	---	1,771	
Operating leases	151	88	92	1,639	1,970	
Unconditional purchase obligations	3,382	6,773	6,764	23,692	40,611	
Tank painting contractual obligation	374	250	---	---	624	
Total contractual cash obligations	\$12,205	\$23,566	\$21,965	\$191,717	\$249,453	

Long-term debt obligations reflect the maturities of certain series of our first mortgage bonds, which we intend to refinance when due. The state revolving fund loan obligation has an amortizing mortgage payment payable over a 20-year period, and will be refinanced as future securities are issued. Both the long-term debt and the state revolving fund loan have certain financial covenant provisions, the violation of which could result in default and require the obligation to be immediately repaid, including all interest. We have not experienced conditions that would result in our default under these agreements, and we do not anticipate any such occurrence. Payments for unconditional purchase obligations reflect minimum water purchase obligations based on rates that are subject to change under our interconnection agreement with the Chester Water Authority.

On December 1, 2008, Artesian Water Company and CoBank, ACB, entered into a Bond Purchase Agreement relating to the issue and sale by the Company to CoBank, ACB of a \$15 million principal amount First Mortgage Bond, or the Bond, Series S, due December 31, 2033, at an annual interest rate of 6.73%. The principal amount of the Bond is subject to redemption in a principal amount equal to \$150,000 per calendar quarter, payable on the first business day of January, April, July and October in each year, beginning with the first business day of January, 2009, with all remaining due and payable on December 31, 2033.

On February 12, 2010, Artesian Water entered into a Financing Agreement, or DWSRF Agreement, with the Delaware Drinking Water State Revolving Fund, acting by and through the Delaware Department of Health and Social Services, Division of Public Health, or the Department. The Company has been given a loan of approximately \$3.9 million, or the Loan, from the Delaware Safe Drinking Water Revolving Fund to finance all or a portion of the cost of improvements and upgrades to specific water mains in service areas located in New Castle County, Delaware (collectively, the "Project"). In accordance with the DWSRF Agreement, the Company will from time to time request funds under the Loan as it incurs costs in connection with the Project. The Company shall pay to the Department, on the principal amount drawn down and outstanding from the date drawn, interest at a rate of 1.705% per annum and an administrative fee at the rate of 1.705% per annum.



## Table of Contents

### Off-Balance Sheet Arrangements

In connection with the purchase of the treatment facility site, as of June 30, 2008, Artesian Utility agreed to commit \$3.0 million to NSRWRC, payable in 10 equal annual installments, which commenced on June 30, 2008. In April 2009, Artesian Utility agreed to accelerate two of its payments to NSRWRC in exchange for a \$450,000 reduction in the total commitment. Artesian Utility made a \$900,000 payment to NSRWRC, which included the June 30, 2009 payment and the acceleration of two payments, or \$600,000. As a result of the reduction in the commitment and the acceleration of the payments, the remaining balance of \$1,350,000 will be repaid over the next 5 years with a final payment of \$150,000 due on June 30, 2014.

### IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2010, the FASB issued authoritative guidance which clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or shares with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance thus eliminating the diversity in practice. This new guidance is effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The Company does not expect a material impact on the Company's financial statements due to the adoption of this guidance.

In August 2009, the FASB issued an ASU which provides guidance on the measurement of liabilities at fair value. The guidance provides clarification that in circumstances in which a quoted market price in an active market for an identical liability is not available, an entity is required to measure fair value using a valuation technique that uses the quoted price of an identical liability when traded as an asset or, if unavailable, quoted prices for similar liabilities or similar assets when traded as assets. If none of this information is available, an entity should use a valuation technique in accordance with existing fair valuation principles. The Company adopted this guidance in the quarter ended September 30, 2009 and there was no material impact on the Company's financial statements.

On July 1, 2009, the FASB issued the FASB Accounting Standards Codification, or the Codification, which establishes only two levels of U.S. GAAP, authoritative and non-authoritative. Therefore, as of July 1, 2009, the Codification is the single source of authoritative non-governmental U.S. GAAP, superseding existing FASB, American Institute of Certified Public Accountants, EITF, and related accounting literature. All other accounting literature will be considered non-authoritative. The Codification reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. This standard is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. As the Codification was not intended to change or alter existing GAAP, it will not have any impact on the Company's consolidated financial statements. The adoption of this standard impacted the Company's financial statement disclosures as all references to authoritative accounting literature are now referenced in accordance with the Codification.

In June 2009, the FASB issued authoritative guidance to amend the manner in which entities evaluate whether consolidation is required for variable interest entities, or VIEs. The model for determining which enterprise has a controlling financial interest and is the primary beneficiary of a VIE has changed significantly under the new guidance. Previously, variable interest holders had to determine whether they had a controlling financial interest in a VIE based on a quantitative analysis of the expected gains and/or losses of the entity. In contrast, the new guidance requires an enterprise with a variable interest in a VIE to qualitatively assess whether it has a controlling financial interest in the entity, and if so, whether it is the primary beneficiary. Furthermore, this guidance requires that companies continually evaluate VIEs for consolidation, rather than assessing based upon the occurrence of triggering events. This revised guidance also requires enhanced disclosures about how a company's involvement with a VIE affects its financial statements and exposure to risks. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2009, with earlier adoption prohibited. The Company does not expect that

the adoption of this statement will have a material impact on the financial statements. Information regarding the Company's involvement with variable interest entities is included in Note 11 - Northern Sussex Regional Water Recycling Complex, LLC.

Table of Contents

In May 2009, the FASB issued authoritative guidance which is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance is effective for financial statements issued for fiscal years and interim periods ending June 15, 2009 and will be applied prospectively. The adoption of this guidance did not result in significant changes in the subsequent events that the Company reports, either through recognition or disclosure, in its financial statements.

In April 2009, the FASB issued revised authoritative guidance requiring disclosures about fair value of financial instruments in interim financial statements, in addition to the annual financial statements as already required. This guidance was adopted by the Company for the period ended June 30, 2009. As this guidance provides only disclosure requirements, the application of this standard did not impact the Company's financial statements. See Note 2 — Fair Value of Financial Instruments.

In April 2009, the FASB issued authoritative guidance clarifying that fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. This guidance requires an evaluation of whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. If there has, transactions or quoted prices may not be determinative of fair value and a significant adjustment may need to be made to those prices to estimate fair value. Additionally, an entity must consider whether the observed transaction was orderly (that is, not distressed or forced). If the transaction was orderly, the obtained price can be considered a relevant observable input for determining fair value. If the transaction is not orderly, other valuation techniques must be used when estimating fair value. This guidance must be applied prospectively for interim periods ending after June 15, 2009. The adoption of this guidance did not have a material impact on the financial statements.

ITEM 7A. – QUANTITATIVE AND QUALITATIVE DISCLOSURE 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 exposure to interest rate risk related to existing fixed rate, long-term debt is due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2019 to 2043. We are also exposed to market risk associated with changes in commodity prices. Our risks associated with price increases in chemicals, electricity and other commodities are mitigated by our ability to recover our costs through rate increases to our customers. We have also sought to mitigate future significant electric price increases by signing a two year supply contract, at a fixed price.

Table of Contents

## ITEM 8. - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2009	December 31, 2008
<b>ASSETS</b>		
Utility plant, at original cost less accumulated depreciation	\$ 326,899	\$ 318,243
Current assets		
Cash and cash equivalents	474	2,894
Accounts receivable (less allowance for doubtful accounts 2009 - \$142; 2008-\$106)	5,505	4,224
Unbilled operating revenues	3,518	3,597
Materials and supplies	1,220	1,147
Prepaid property taxes	1,222	1,119
Prepaid expenses and other	1,304	491
Total current assets	13,243	13,472
Other assets		
Non-utility property (less accumulated depreciation 2009-\$255; 2008-\$179)	11,241	9,436
Other deferred assets	4,994	4,992
Total other assets	16,235	14,428
Regulatory assets, net	2,518	2,563
	\$ 358,895	\$ 348,706
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Stockholders' equity		
Common stock	\$ 7,507	\$ 7,401
Preferred stock	---	---
Additional paid-in capital	68,090	66,699
Retained earnings	15,577	13,694
Total stockholders' equity	91,174	87,794
Long-term debt, net of current portion	106,025	107,555
	197,199	195,349
Current liabilities		
Lines of credit	25,123	20,286
Current portion of long-term debt	1,530	1,516
Accounts payable	3,696	4,556
Accrued expenses	685	2,868
Overdraft payable	1,026	784
Deferred income taxes	439	363
Accrued interest	1,361	1,251
Customer deposits	592	556
Other	2,069	2,197
Total current liabilities	36,521	34,377
Commitments and contingencies (Note 10)		
	---	---
Deferred credits and other liabilities		
Net advances for construction	18,433	21,089
Postretirement benefit obligation	737	812

Edgar Filing: ARTESIAN RESOURCES CORP - Form 10-K

Deferred investment tax credits	685	715
Deferred income taxes	34,077	29,523
Total deferred credits and other liabilities	53,932	52,139
Net contributions in aid of construction	71,243	66,841
	\$358,895	\$348,706

The notes are an integral part of the consolidated financial statements.

36

---

Table of Contents

## CONSOLIDATED STATEMENTS OF OPERATIONS

In thousands, except per share amounts

	For the Year Ended December 31,		
	2009	2008	2007
Operating revenues			
Water sales	\$53,871	\$50,101	\$48,461
Other utility operating revenue	2,208	2,019	1,699
Non-utility operating revenue	4,833	4,065	2,364
	60,912	56,185	52,524
Operating expenses			
Utility operating expenses	28,965	28,154	26,834
Non-utility operating expenses	3,403	2,717	1,760
Depreciation and amortization	6,556	5,782	5,162
Taxes			
State and federal income			
Current	116	74	608
Deferred	4,744	4,353	3,526
Property and other	3,483	3,199	2,868
	47,267	44,279	40,758
Operating income	13,645	11,906	11,766
Other income, net			
Allowance for funds used during construction (AFUDC)	413	759	324
Miscellaneous	422	366	478
	835	1,125	802
Income before interest charges	14,480	13,031	12,568
Interest charges	7,218	6,613	6,305
Net income applicable to common stock	\$7,262	\$6,418	\$6,263
Income per common share:			
Basic	\$0.97	\$0.87	\$0.92
Diluted	\$0.97	\$0.86	\$0.90
Weighted average common shares outstanding:			
Basic	7,454	7,353	6,787
Diluted	7,512	7,427	6,936
Cash dividends per share of common stock	\$0.7225	\$0.7136	\$0.6640

The notes are an integral part of the consolidated financial statements.



Table of Contents

## CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands	For the Year Ended December 31,		
	2009	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$7,262	\$6,418	\$6,263
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,556	5,782	5,162
Deferred income taxes, net	4,600	4,390	3,657
Stock compensation	98	122	196
Allowance for funds used during construction	(413 )	(759 )	(324 )
Changes in assets and liabilities:			
Accounts receivable, net of reserve for bad debts	(603 )	1,275	(2,083 )
Unbilled operating revenues	79	(399 )	(543 )
Materials and supplies	(73 )	45	(138 )
Prepaid property taxes	(103 )	(61 )	(134 )
Prepaid expenses and other	(813 )	366	(101 )
Other deferred assets	(159 )	(836 )	(495 )
Regulatory assets	45	(882 )	200
Accounts payable	(860 )	1,331	435
Accrued expenses	(2,183 )	385	(804 )
Accrued interest	110	925	(34 )
Customer deposits and other, net	(92 )	129	428
Postretirement benefit obligation	(75 )	(56 )	(59 )
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>13,376</b>	<b>18,175</b>	<b>11,626</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Capital expenditures (net of AFUDC)	(17,390 )	(45,057 )	(26,736 )
Investments in acquisitions	---	(4,772 )	---
Proceeds from sale of assets	43	62	27
Investments from unconsolidated affiliates	---	---	2
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(17,347 )</b>	<b>(49,767 )</b>	<b>(26,707 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net borrowings (repayments) under lines of credit agreements	4,837	19,388	(7,008 )
(Decrease) increase in overdraft payable	242	(888 )	(318 )
Net advances and contributions in aid of construction	1,854	2,667	6,839
Increase in deferred debt issuance costs	114	1	110
Net proceeds from issuance of common stock	1,399	1,314	21,329
Dividends	(5,379 )	(5,193 )	(4,455 )
Issuance of long-term debt	---	15,000	---
Principal repayments of long-term debt	(1,516 )	(323 )	(310 )
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>1,551</b>	<b>31,966</b>	<b>16,187</b>
<b>NET (DECREASE ) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,420 )</b>	<b>374</b>	<b>1,106</b>



Edgar Filing: ARTESIAN RESOURCES CORP - Form 10-K

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,894	2,520	1,414
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$474	\$2,894	\$2,520

Supplemental Disclosures of Cash Flow Information:

Utility plant received as construction advances and contributions	\$845	\$7,101	\$---
Contractual amounts of contributions in aid of construction due from developers included in accounts receivable	\$678	\$---	\$---

Artesian Water Maryland, Inc. acquired all the outstanding membership interests of Mountain Hill Water Company, LLC for approximately \$7.1 million. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	\$---	\$7,093	\$---
Cash paid for membership interests	---	(4,772 )	---
Liabilities assumed	\$---	\$2,321	\$---

Supplemental Disclosures of Cash Flow Information:

Interest paid	\$7,107	\$5,576	\$6,230
Income taxes paid	\$350	\$---	\$725

The notes are an integral part of the consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

In thousands

	Common Shares Outstanding Class A Non-Voting (1) (3) (4)	Common Shares Outstanding Class B Voting (2)	\$1 Par Value Class A Non-Voting	\$1 Par Value Class B Voting	Additional Paid-in Capital	Retained Earnings	Total
Balance as of December 31, 2006	5,204	882	\$ 5,204	\$ 882	\$ 45,052	\$ 10,662	\$ 61,800
Net income	---	---	---	---	---	6,263	6,263
Cash dividends declared							
Common stock	---	---	---	---	---	(4,455 )	(4,455 )
Issuance of common stock							
Stock Issuance(5)	1,129	---	1,129	---	19,290	(1 )	20,418
Dividend reinvestment plan	18	---	18	---	326	---	344
Employee stock options and awards(4)	50	---	50	---	374	---	424
Employee Retirement Plan(3)	17	---	17	---	321	---	338
Balance as of December 31, 2007	6,418	882	\$ 6,418	\$ 882	\$ 65,363	\$ 12,469	\$ 85,132
Net income	---	---	---	---	---	6,418	6,418
Cash dividends declared							
Common stock	---	---	---	---	---	(5,193 )	(5,193 )
Issuance of common stock							
Dividend reinvestment plan	18	---	18	---	299	---	317
Employee stock options and awards(4)	60	---	60	---	674	---	734
Employee Retirement	23	---	23	---	363	---	386

Plan(3)								
Balance as of December 31, 2008	6,519	882	\$ 6,519	\$ 882	\$ 66,699	\$ 13,694	\$ 87,794	
Net income	---	---	---	---	---	7,262	7,262	
Cash dividends declared								
Common stock	---	---	---	---	---	(5,379 )	(5,379 )	
Issuance of common stock								
Dividend reinvestment plan	19	---	19	---	289	---	308	
Employee stock options and awards(4)	65	---	65	---	772	---	837	
Employee Retirement Plan(3)	22	---	22	---	330	---	352	
Balance as of December 31, 2009	6,625	882	\$ 6,625	\$ 882	\$ 68,090	\$ 15,577	\$ 91,174	

- (1) At December 31, 2009, 2008, and 2007, Class A Non-Voting Common Stock had 15,000,000 shares authorized. For the same periods, shares issued were 6,650,002, 6,543,606 and 6,442,805, respectively.
- (2) At December 31, 2009, 2008, and 2007, Class B Common Stock had 1,040,000 shares authorized and 882,000 shares issued.
- (3) Artesian Resources Corporation registered 500,000 shares of Class A Non-Voting Common Stock available for purchase through the Artesian Retirement Plan and the Artesian Supplemental Retirement Plan.
- (4) Under the Equity Compensation Plan, effective May 25, 2005 Artesian Resources Corporation authorized up to 500,000 shares of Class A Non-Voting Common Stock for issuance of grants in forms of stock options, stock units, dividend equivalents and other stock-based awards, subject to adjustment in certain circumstances as discussed in the Plan.
- (5) At June 19, 2007 Artesian Resources Corporation completed the sale of 1,000,000 shares and at July 10, 2007 Artesian Resources Corporation completed the sale of an additional 129,000 shares of its Class A Non-Voting Common Stock.

The notes are an integral part of the consolidated financial statements.

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The audited consolidated financial statements are presented in accordance with the requirements of Form 10-K and consequently include all the disclosures required in the financial statements included in the Company's annual report on Form 10-K.

In accordance with FASB Accounting Standards Codification, or ASC, Topic 810, the Company consolidates variable interest entities for which it is deemed to be the primary beneficiary. All inter-company transactions and balances have been eliminated in consolidation (refer to Note 11 - "Northern Sussex Regional Water Recycling Complex, LLC").

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on net income or stockholders' equity.

Utility Subsidiary Accounting

The accounting records of Artesian Water and Artesian Wastewater Management, Inc, or Artesian Wastewater, are maintained in accordance with the uniform system of accounts as prescribed by the Delaware Public Service Commission or the DEPSC. The accounting records of Artesian Water Pennsylvania, Inc., or Artesian Water Pennsylvania, are maintained in accordance with the uniform system of accounts as prescribed by the Pennsylvania Public Utility Commission or the PAPUC. The accounting records of Artesian Water Maryland, Inc., or Artesian Water Maryland, and Artesian Wastewater Maryland, Inc., or Artesian Wastewater Maryland, are maintained in accordance with the uniform system of accounts as prescribed by the Maryland Public Service Commission, or the MDPSC. All five subsidiaries follow the provisions of FASB ASC Topic 980, which provides guidance for companies in regulated industries.

Utility Plant

All additions to plant are recorded at cost. Cost includes direct labor, materials, and indirect charges for such items as transportation, supervision, pension, and other fringe benefits related to employees engaged in construction activities. When depreciable units of utility plant are retired, the cost of retired property, together with any cost associated with retirement and less any salvage value or proceeds received, is charged to accumulated depreciation. Maintenance, repairs, and replacement of minor items of plant are charged to expense as incurred.

In accordance with a rate order issued by the DEPSC, Artesian Water accrues an Allowance for Funds Used During Construction or AFUDC. AFUDC, which represents the cost of funds devoted to construction projects through the date the project is placed in service, is capitalized as part of construction work in progress. The rate used for the AFUDC calculation is based on Artesian Water's weighted average cost of debt and the rate of return on equity authorized by the DEPSC. The rate used to capitalize AFUDC in 2009, 2008, and 2007 was 7.7%, 7.9%, and 8.1%, respectively.



Table of Contents

Utility plant comprises:

In thousands

	Estimated Useful Life (In Years)	December 31,	
		2009	2008
Utility plant at original cost			
Utility plant in service-Water			
Intangible plant	---	\$ 140	\$ 140
Source of supply plant	45-85	16,327	15,785
Pumping and water treatment plant	35-62	55,995	53,205
Transmission and distribution plant			
Mains	81	175,164	169,311
Services	39	28,533	28,016
Storage tanks	76	22,237	22,214
Meters	26	14,766	12,508
Hydrants	60	9,283	9,018
General plant	3-31	43,716	41,627
Utility plant in service-Wastewater			
Treatment and Disposal Plant	35-62	11,495	11,308
Collection Mains & Lift Stations	81	4,575	4,059
General plant	3-31	929	602
Property held for future use	---	1,932	1,976
Construction work in progress	---	6,457	7,082
		391,549	376,851
Less – accumulated depreciation		64,650	58,608
		\$ 326,899	\$ 318,243

## Depreciation and Amortization

For financial reporting purposes, depreciation is recorded using the straight-line method at rates based on estimated economic useful lives, which range from 3 to 85 years. Composite depreciation rates for water utility plant were 2.25%, 2.24% and 2.12% for 2009, 2008 and 2007, respectively. In a rate order issued by the DEPSC, the Company was directed effective January 1, 1998 to begin using revised depreciation rates for utility plant. In rate orders issued by the DEPSC, Artesian Water was directed, effective May 28, 1991 and August 25, 1992, to offset depreciation recorded on utility plant by depreciation on utility property funded by Contributions in Aid of Construction, or CIAC, and Advances for Construction, or Advances, respectively. This reduction in depreciation expense is also applied to outstanding CIAC and Advances. Other deferred assets are amortized using the straight-line method over applicable lives, which range from 2 to 40 years.

Table of Contents

## Regulatory Assets

FASB ASC Topic 980 stipulates generally accepted accounting principles for companies whose rates are established by or are subject to approval by a third-party regulatory agency. Certain expenses are recoverable through rates charged to our customers, without a return on investment, and are deferred and amortized during future periods using various methods as permitted by the DEPSC, the MDPSC, and the PAPUC. Depreciation and salary study expenses are amortized on a straight-line basis over a period of five years, while all other expenses related to rate proceedings and applications to increase rates are amortized on a straight-line basis over a period of two years. The postretirement benefit obligation, which is being amortized over twenty years, is adjusted for the difference between the net periodic postretirement benefit costs and the cash payments. The deferred income taxes will be amortized over future years as the tax effects of temporary differences previously flowed through to the customers reverse. Goodwill is entirely associated with the acquisition of Mountain Hill in August 2008 and is currently being amortized on a straight-line basis over a period of fifty years. The purchase price of Mountain Hill included reimbursement of all carrying costs through the date of acquisition, which resulted in the recognition of goodwill. Deferred acquisition costs are the result of due diligence costs related to the proposed purchase agreements for water and wastewater facilities in Cecil County, Maryland. A small portion, approximately \$25,000, of the deferred acquisition costs are related to the water asset purchase agreement with Port Deposit, Maryland. Amortization of these deferred acquisition costs will not begin until the acquired assets are placed into service. The Appleton Alliance filed an appeal of the decision of The Circuit Court of Cecil County on its petition for judicial review of the proposed transfer of certain Cecil County property and assets to Artesian, delaying the closing of these transactions until a final judicial determination is received. Closing on these transactions is also subject to the approval of the MDPSC.

Regulatory assets at December 31, net of amortization, comprise:

In thousands	2009	2008
Postretirement benefit obligation	\$849	\$924
Deferred income taxes recoverable in future rates	536	552
Goodwill	363	370
Deferred acquisition costs	542	341
Expense of rate proceedings	228	376
	\$2,518	\$2,563

## Impairment or Disposal of Long-Lived Assets

A review of our long-lived assets, including Utility Plant in Service, is performed in accordance with the requirements of FASB ASC Topic 360. In addition, the regulatory assets are reviewed for the continued application of FASB ASC Topic 360. The review determines whether there have been changes in circumstances or events that have occurred requiring adjustments to the carrying value of these assets. FASB ASC Topic 360 stipulates that adjustments to the carrying value of these assets would be made in instances where the inclusion in the rate-making process is unlikely.

## Other Deferred Assets

Debt issuance costs are amortized over the term of the related debt, which range from 10 to 30 years. The investment in Co-Bank, which is a cooperative bank, is related to certain outstanding First Mortgage Bonds and is a required investment in the bank based on the underlying long term debt agreements. A large portion of other deferred assets, approximately \$0.5 million, is in relation to the Mountain Hill acquisition.





Table of Contents

Other deferred assets at December 31, net of amortization, comprise:

In thousands	2009	2008
Debt issuance cost	\$2,356	\$2,471
Investment in Co-Bank	1,840	1,660
Other	798	861
	\$4,994	\$4,992

#### Advances for Construction

Water mains, services and hydrants, or cash advances to reimburse Artesian Water for its costs to construct water mains, services and hydrants are contributed to Artesian Water by customers, real estate developers and builders in order to extend water service to their properties. The value of these contributions is recorded as Advances for Construction. Artesian Water makes refunds on these advances over a specific period of time based on operating revenues generated by the specific plant or as new customers are connected to the mains. After all refunds are made, any remaining balance is transferred to CIAC.

#### Contributions in Aid of Construction

CIAC includes the non-refundable portion of advances for construction and direct contributions of water mains, services and hydrants, and wastewater treatment facilities and collection systems, or cash to reimburse our water and wastewater divisions for costs to construct water mains, services and hydrants, and wastewater treatment and disposal plant.

#### Income Taxes

Deferred income taxes are provided in accordance with FASB ASC Topic 740 on all differences between the tax basis of assets and liabilities and the amounts at which they are carried in the financial statements based on the enacted tax rates expected to be in effect when such temporary differences are expected to reverse. Under FASB ASC Topic 740 the Company analyzed our various tax positions and determined that no further entry, recognition or derecognition were required. The Company would recognize, if applicable, interest accrued and penalties related to unrecognized tax benefits in interest expense and in accordance with the regulations of the jurisdictions involved.

The Tax Reform Act of 1986 mandated that Advances and CIAC received subsequent to December 31, 1986, generally are taxable income to Artesian Water. The 1996 Tax Act provided an exclusion from taxable income for CIAC and Advances received after June 12, 1996 by our utilities except for certain contributions for large services that are not included in rate base for rate-making purposes.

Investment tax credits were deferred through 1986 and are recognized as a reduction of deferred income tax expense over the estimated economic useful lives of the related assets.

#### Stock Compensation Plans

On May 25, 2005, the Company's stockholders approved a new Equity Compensation Plan, which authorizes up to 500,000 shares of Class A Non-Voting Common Stock, or Class A Stock, for issuance, referred to as the 2005 Equity Compensation Plan, or the Plan. Since May 25, 2005, no additional grants have been made under the Company's other stock-based compensation plans that were previously available. The Company accounts for stock options issued after January 1, 2006 under FASB ASC Topic 718. Compensation costs in the amount of \$98,000, \$127,000 and \$215,000

for awards and options granted in 2009, 2008 and 2007 respectively, were determined based on the fair value at the grant dates and those costs are being charged to income over the service period associated with the grants. Of the \$215,000 in 2007, \$47,000 was associated with stock awards, \$19,000 was associated cash payments for taxes, and \$149,000 was the amount amortized for stock options awarded in 2007 and 2006. Of the \$127,000 in 2008, \$8,000 was associated with stock awards, \$5,000 was associated cash payments for taxes, and \$114,000 was the amount amortized for stock options awarded in 2008 and 2007. The \$98,000 in 2009 was the amount amortized for stock options awarded in 2009 and 2008.

There was no stock compensation cost capitalized as part of an asset.

Table of Contents

The fair value of each option grant is estimated using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions used for grants issued in 2009, 2008 and 2007 under the 2005 Equity Compensation Plan (See Note 8 - "Stock Compensation Plans").

	2009		2008		2007	
Dividend Yield	4.5	%	3.6	%	3.3	%
Expected Volatility	.26		.25		.27	
Risk Free Interest Rate	2.81	%	3.45	%	4.69	%
Expected Term	7.06	years	6.93	years	6.65	years

The expected dividend yield was based on a 12 month rolling average of the Company's current dividend yield. The expected volatility is the standard deviation of the change in the natural logarithm of the stock price (expressed as an annual rate) for the expected term shown above. The expected term was based on historic exercise patterns for similar grants. The risk free interest rate is the 7-year Treasury Constant Maturity rate as of the date of the grants for 2009, 2008 and 2007.

Shares of Class A Stock have been reserved for future issuance under the 2005 Equity Compensation Plan.

#### Revenue Recognition and Unbilled Revenues

Water service revenue for financial statement purposes includes amounts billed to customers on a quarterly or monthly cycle basis, depending on class of customer, and unbilled amounts based upon estimated usage from the date of the last meter reading to the end of the accounting period. As actual usage amounts are received, adjustments are made to the unbilled estimates in the next billing cycle based on the actual results.

Non-utility operating revenue is primarily derived from the design, construction and operation of contract water and wastewater projects. The Company recognizes non-utility operating revenue ratably over the service period with markup for overhead and profit. The Company records contract monthly fees for non-utility operating revenue when billed to the customer.

Other operating revenue includes wastewater service revenue derived from monthly fixed fees billed to customers, and which is recorded when billed. Service line protection plan revenues are recognized on an accrual basis effective January 1, 2009, as compared to 2008, in which they were billed quarterly and the revenue recognized when billed. This accounting policy change did not have a material effect on the financial statements.

Table of Contents

## Accounts Receivable

Accounts receivable are recorded at the invoiced amounts. The reserve for bad debts is the Company's best estimate of the amount of probable credit losses in our existing accounts receivable. The Company reviews the allowance for bad debts on a quarterly basis. Account balances are written off against the reserve when it is probable the receivable will not be recovered. The allowance for doubtful accounts was \$0.1 million at December 31, 2009 and 2008, respectively. The corresponding expense for the year ended December 31, 2009 and 2008 was \$0.3 and \$0.2, respectively. The following table summarizes the changes in the Company's accounts receivable balance:

In thousands	2009	December 31, 2008	2007
Customer Accounts Receivable – Water	\$3,039	\$2,637	\$4,437
Other	2,608	1,693	1,345
	5,647	4,330	5,782
Less allowance for doubtful accounts	142	106	283
Net accounts receivable	\$5,505	\$4,224	\$5,499

The activities in the allowance for doubtful accounts are as follows:

In thousands	2009	December 31, 2008	2007
Beginning Balance	\$106	\$283	\$191
Allowance Adjustments	291	221	327
Recoveries	74	35	19
Write off of uncollectible accounts	(329 )	(433 )	(254 )
Ending Balance	\$142	\$106	\$283

## Cash and Cash Equivalents

For purposes of the Consolidated Statement of Cash Flows, Artesian Resources considers all temporary cash investments with an original maturity of three months or less to be cash equivalents. Artesian Water, Artesian Wastewater, and Artesian Utility utilize their bank's zero balance account disbursement service to reduce the use of their lines of credit by funding checks as they are presented to the bank for payment rather than at issuance. If the checks currently outstanding, but not yet funded, exceed the cash balance on our books, the net liability is recorded as a current liability on the consolidated balance sheet in the Overdraft Payable account.

## Use of Estimates in the Preparation of Consolidated Financial Statements

The consolidated financial statements were prepared in conformity with generally accepted accounting principles in the U.S., which require management to make estimates about the reported amounts of assets and liabilities including unbilled revenues, reserve for a portion of revenues received under temporary rates and regulatory asset recovery and contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimate.



Table of Contents

## NOTE 2

## FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

## Current Assets and Liabilities

For those current assets and liabilities that are considered financial instruments, the carrying amounts approximate fair value because of the short maturity of those instruments.

## Long-term Financial Liabilities

The fair value of Artesian Resources' long-term debt as of December 31, 2009 and 2008, determined by discounting their future cash flows using current market interest rates on similar instruments with comparable maturities as guided under FASB ASC 825 are shown as below:

In thousands	December 31,	
	2009	2008
Carrying amount	\$ 106,025	\$ 107,555
Estimated fair value	103,650	113,214

The fair value of Advances for Construction cannot be reasonably estimated due to the inability to accurately estimate future refunds expected to be paid over the life of the contracts. Refund payments are based on the water sales to new customers in the particular development constructed. The fair value of Advances for Construction would be less than the carrying amount because these financial instruments are non-interest bearing.

## NOTE 3

## INCOME TAXES

Deferred income taxes reflect temporary differences between the valuation of assets and liabilities for financial and tax reporting.

As of December 31, 2009, Artesian Resources has federal net operating loss carry-forwards aggregating approximately \$11.3 million, which will expire if unused by 2029. As of December 31, 2009, Artesian Resources has separate company state net operating loss carry-forwards aggregating approximately \$18.8 million. These net operating loss carry-forwards will expire if unused between 2019 and 2029. Artesian Resources has recorded a valuation allowance to reflect the estimated amount of deferred tax assets that may not be realized due to the expiration of the state net operating loss carry-forwards. Management believes that it is more likely than not that the Company will realize the benefits of these net deferred tax assets. The valuation allowance decreased from approximately \$71,000 in 2008 to approximately \$37,000 in 2009.

At December 31, 2009, for federal income tax purposes, there were alternative minimum tax credit carry-forwards aggregating \$2.5 million resulting from the payment of alternative minimum tax in prior years. These alternative minimum tax credit carry-forwards may be carried forward indefinitely to offset future regular federal income taxes.



Table of Contents

Under FASB ASC Topic 740 the Company analyzed Artesian's various tax positions and determined that no further entry, recognition or derecognition was required. The Company would recognize, if applicable, interest accrued and penalties related to unrecognized tax benefits in interest expense and in accordance with the regulations of the jurisdictions involved. There were no such interest and penalty charges for the period ended December 31, 2009 or December 31, 2008. The Company remains subject to examination by federal and state authorities for tax years 2006 through 2009.

## Components of Income Tax Expense

In thousands	For the Year Ended December 31,		
State income taxes	2009	2008	2007
Current	\$64	\$74	\$---
Deferred	996	887	866
Total state income tax expense	\$1,060	\$961	\$866

  

Federal income taxes	For the Year Ended December 31,		
	2009	2008	2007
Current	\$52	\$---	\$608
Deferred	3,748	3,466	2,660
Total federal income tax expense	\$3,800	\$3,466	\$3,268

## Reconciliation of effective tax rate:

In thousands	For the Year Ended December 31,					
	2009	2009	2008	2008	2007	2007
	Amount	Percent	Amount	Percent	Amount	Percent
Reconciliation of effective tax rate						
Income before federal and state income taxes	\$12,153	100.0	\$10,899	100.0	\$10,397	100.0
Amount computed at statutory rate	4,132	34.0	3,706	34.0	3,535	34.0
Reconciling items						
State income tax-net of federal tax benefit	683	5.6	678	6.2	571	5.5
Other	45	0.4	43	0.4	28	0.3
Total income tax expense and effective rate	\$4,860	40.0	\$4,427	40.6	\$4,134	39.8



Table of Contents

Deferred income taxes at December 31, 2009, 2008, and 2007 were comprised of the following:

In thousands	For the Year Ended December 31,		
	2009	2008	2007
Deferred tax assets related to:			
Federal alternative minimum tax credit carry-forwards	\$2,547	\$2,495	\$2,550
Federal and state operating loss carry-forwards	4,899	5,330	3,500
Bad debt allowance	97	83	120
Valuation allowance	(37 )	(71 )	(88 )
Stock options	---	---	---
Other	214	242	234
Total deferred tax assets	\$7,720	\$8,079	\$6,316
Deferred tax liabilities related to:			
Property plant and equipment basis differences	\$(41,410 )	\$(37,151 )	\$(31,087 )
Expenses of rate proceedings	(91 )	(149 )	(56 )
Property taxes	(486 )	(445 )	(420 )
Other	(249 )	(220 )	(224 )
Total deferred tax liabilities	\$(42,236 )	\$(37,965 )	\$(31,787 )
Net deferred tax liability	\$(34,516 )	\$(29,886 )	\$(25,471 )

Deferred taxes, which are classified into a net current and non-current balance, are presented in the balance sheet as follows:

Current deferred tax liability	\$(439 )	\$(363 )	\$(301 )
Non-current deferred tax liability	(34,077 )	(29,523 )	(25,170 )
Net deferred tax liability	\$(34,516 )	\$(29,886 )	\$(25,471 )

## Schedule of Valuation Allowance

In thousands	Balance at Beginning Of Period	Additions		Balance at End of Period
		Charged to Costs and Expenses	Deductions	
Classification				
For the Year Ended December 31, 2009 - Valuation allowance for deferred tax assets	\$71	---	\$34	\$37
For the Year Ended December 31, 2008 - Valuation allowance for deferred tax assets	\$88	---	\$17	\$71
For the Year Ended December 31, 2007 - Valuation allowance for deferred tax assets	\$121	---	\$33	\$88



Table of Contents

NOTE 4

PREFERRED STOCK

As of December 31, 2009 and 2008, Artesian Resources had no preferred stock outstanding. The Company has 100,000 shares of \$1.00 par value Series Preferred stock authorized but unissued.

NOTE 5

COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL

The Class A Non-Voting Common Stock, Class A Stock, of Artesian Resources trades on the NASDAQ Global Select Market under the symbol ARTNA. The Class B Common Stock, or Class B Stock, of Artesian Resources trades on the NASDAQ's OTC Bulletin Board under the symbol ARTNB.OB. The rights of the holders of the Class A Stock and the Class B Stock are identical, except with respect to voting. One primary source of liquidity in 2007 was \$20.4 million in net proceeds from the issuance of approximately 1,129,000 shares of Class A Non-Voting Common Stock.

Under Artesian Resources' dividend reinvestment plan, which allows for reinvestment of cash dividends and optional cash payments, stockholders were issued 19,277, 18,209 and 17,791 shares at fair market value for the investment of \$308,000, \$317,000, and \$344,000 of their monies in the years 2009, 2008, and 2007, respectively.

NOTE 6

DEBT

At December 31, 2009, Artesian Water had two lines of credit of \$20 million each to meet temporary cash requirements. These revolving credit facilities are unsecured. As of December 31, 2009, we had \$27.1 million of available funds under these lines. The interest rate for borrowings under one of these lines is the London Interbank Offering Rate, or "LIBOR," plus 0.75%. The interest rate for borrowings under the other line of credit is the LIBOR plus 1.00%. Due to the execution of the agreements in January 2010 described below, the balances on these two lines were transferred to the new lines of credit and these lines of credit held by Artesian Water were terminated.

At December 31, 2009, Artesian Utility and Artesian Wastewater had lines of credit with a financial institution for \$3.5 million and \$10.0 million, respectively, to meet temporary cash requirements. These revolving credit facilities are unsecured. As of December 31, 2009, Artesian Wastewater had \$5.4 million of available funds while Artesian Utility had not borrowed funds under its line of credit. The interest rate for borrowings under each of these lines is the LIBOR plus 1.75%. Due to the execution of the agreements in January 2010 described below, the balance on the Artesian Wastewater line of credit was transferred to the new lines of credit and these lines of credit held by Artesian Wastewater and Artesian Utility were terminated.

On January 19, 2010, Artesian Resources and each of its subsidiaries entered into a Demand Line of Credit Agreement, or Demand Credit Agreement, with Citizens Bank, or Citizens. The Demand Credit Agreement provides for a \$40 million Demand Line of Credit which may be used for short-term working capital needs, investments in facilities or equipment or letters of credit only. The interest rate for borrowings under this line is based on LIBOR. The Demand Credit Agreement is a demand loan facility and therefore Citizens may demand payment for any outstanding amounts at any time. The term of this line of credit expires on the earlier of January 18, 2011 or any date on which Citizens demands payment. See Note 18 – Subsequent Events for further information regarding the Demand Credit Agreement.

On January 19, 2010, Artesian Water Company entered into a Revolving Credit Agreement with CoBank ACB. The Revolving Credit Agreement provides that the financial institution will make loans to the Company from time to time, not to exceed \$20 million. The Revolving Credit Agreement allows for the financing of operations of Artesian Water and up to \$10 million for the operations of Artesian Water Maryland. The interest rate for borrowings under this line is the LIBOR plus 1.50%. The term of this line of credit expires on January 18, 2011. See Note 18 – Subsequent Events for further information regarding the Revolving Credit Agreement.

Table of Contents

On June 30, 2008, Artesian Utility signed an agreement with Northern Sussex Regional Water Recycling Complex, LLC, or NSRWRC. Under the terms of the agreement, Artesian Resources acts as the guarantor of NSRWRC's \$10 million construction loan secured by land. As of December 31, 2009 NSRWRC had \$2.5 million of available funds under the construction loan. The interest rate on this guaranteed debt is variable based on the LIBOR Advantage Rate plus 225 basis points. In the event of a default by NSRWRC, Artesian Resources shall pay the bank the amount due of the obligations or, on demand of the bank, immediately deposit all amounts due under the obligation.

On August 1, 2008, Artesian Water Maryland executed a promissory note in the amount of approximately \$2.3 million to Sunrise in connection with the Mountain Hill acquisition that bears interest at a variable interest rate based upon the LIBOR plus 150 basis points. The note is payable in four equal annual installments, commencing on the first anniversary of the closing date. The first annual installment payment of \$0.6 million was made on August 1, 2009, the remaining principal balance due on this note, as of December 31, 2009, is \$1.7 million. The note is secured by a first lien security interest in all of Mountain Hill's assets in favor of Sunrise and is guaranteed by Artesian Resources.

On December 1, 2008, Artesian Water Company and CoBank, ACB, entered into a Bond Purchase Agreement relating to the issue and sale by the Company to CoBank, ACB of a \$15 million principal amount First Mortgage Bond, or the Bond, Series S, due December 31, 2033, at an annual interest rate of 6.73%. The principal amount of the Bond is subject to redemption in a principal amount equal to \$150,000 per calendar quarter, payable on the first business day of January, April, July and October in each year, beginning with the first business day of January, 2009, with all remaining due and payable on December 31, 2033.

Long-term debt consists of:

In thousands	December 31,	
	2009	2008
First mortgage bonds		
Series O, 8.17%, due December 29, 2020	\$20,000	\$20,000
Series P, 6.58%, due January 31, 2018	25,000	25,000
Series Q, 4.75%, due December 1, 2043	15,400	15,400
Series R, 5.96%, due December 31, 2028	25,000	25,000
Series S, 6.73%, due December 31, 2033	14,400	15,000
	99,800	100,400
State revolving fund loans		
4.48%, due August 1, 2021	3,022	3,209
3.57%, due September 1, 2023	1,140	1,201
3.64%, due May 1, 2024	1,852	1,940
	6,014	6,350
Notes Payable		
Promissory Note, variable interest, due August 1, 2012	1,741	2,321
	1,741	2,321
Sub-total	107,555	109,071
Less: current maturities (principal amount)	1,530	1,516

Total long-term debt						\$106,025	\$107,555
----------------------	--	--	--	--	--	-----------	-----------

Payments of principal due during the next five years and thereafter:

In thousands	2010	2011	2012	2013	2014	Thereafter
First Mortgage bonds	\$600	600	600	600	600	96,800
State revolving fund loans	350	364	379	395	412	4,114
Notes Payable	580	580	581	---	---	---
Total payments	\$1,530	1,544	1,560	995	1,012	100,914

50

---

Table of Contents

## NOTE 7

## NON-UTILITY OPERATING REVENUE AND EXPENSES

Non-utility operating revenue consisted of \$3,007,000, \$2,937,000, and \$1,942,000 recognized by Artesian Utility in 2009, 2008 and 2007, respectively. In addition, \$1,330,000, \$796,000 and \$422,000 was from Artesian Resource's water and wastewater Service Line Protection Plans in 2009, 2008 and 2007 respectively. The Service Line Protection Plans provide coverage for all material and labor required to repair or replace participants' leaking water and leaking or clogged wastewater service lines up to an annual limit. An additional \$496,000 and \$332,000 in revenue was recognized in 2009 and 2008, respectively, from Artesian Engineers, which was acquired in June 2008, for design and engineering services to developers for residential and commercial development.

Non-utility operating expenses are as follows:

In thousands	2009	2008	2007
Artesian Utility	\$2,308	\$1,934	\$1,528
Artesian Resources	660	562	232
Artesian Engineers	435	221	---
Total	\$3,403	\$2,717	\$1,760

## NOTE 8

## STOCK COMPENSATION PLANS

In 1992, the Company instituted the 1992 Non-Qualified Stock Option Plan, which was subsequently amended in 1998. The number of authorized shares was 375,000. Options to purchase shares of Class A Stock were granted to employees and directors of the Company. Employees who were not executive officers or directors were eligible to receive options priced at not less than 85% of the fair market value on the date of grant, option prices for directors and officers of the Company was 90% of the fair market value. Effective May 25, 2005, no additional grants have been made from this plan.

In 1996, the Company instituted the Incentive Stock Option Plan under which the Company was authorized to grant options up to 150,000 shares of Class A Stock to its key employees and officers. Options were granted at the fair market value on the date of grant. The Company accelerated vesting for certain incentive stock options held by officers and directors in anticipation of FASB ASC Topic 718, which applies to stock options issued after January 1, 2006. Effective May 25, 2005, no additional grants have been made from this plan.

On May 25, 2005, the Company adopted the 2005 Equity Compensation Plan, or the Plan. The Plan provides that grants may be in any of the following forms: incentive stock options, nonqualified stock options, stock units, stock awards, dividend equivalents and other stock-based awards. The Plan is administered and interpreted by the Compensation Committee of the Board of Directors, or the Committee. The Committee has the authority to determine the individuals to whom grants will be made under the Plan, determine the type, size and terms of the grants, determine the time when grants will be made and the duration of any applicable exercise or restriction period (subject to the limitations of the Plan) and deal with any other matters arising under the Plan. The Committee presently consists of three directors, each of whom is a non-employee director of the Company. All of the employees of the Company and its subsidiaries are eligible for grants under the Plan. Non-employee directors of the Company are also eligible to receive grants under the Plan.





Table of Contents

The following summary reflects changes in the shares of Class A Stock under option:

	2009 Shares	2009 Weighted Average Exercise Price	2008 Shares	2008 Weighted Average Exercise Price	2007 Shares	2007 Weighted Average Exercise Price
Plan options						
Outstanding at beginning of year	530,921	\$ 15.14	574,696	\$ 14.62	595,699	\$ 13.83
Granted	33,750	15.26	33,750	18.43	33,750	19.56
Exercised	(65,132 )	9.48	(59,525 )	10.46	(48,003 )	7.61
Expired	(1,650 )	9.33	(18,000 )	20.23	(6,750 )	19.56
Outstanding at end of year	497,889	\$ 15.91	530,921	\$ 15.14	574,696	\$ 14.62
Options exercisable at year end	464,139	\$ 15.95	497,171	\$ 14.92	547,696	\$ 14.38

The fair value per share of options granted during 2009, 2008, and 2007 were \$2.56, \$3.60 and \$4.85 respectively, as estimated using the Black-Scholes Merton option pricing model. The total intrinsic value of options exercised during 2009, 2008 and 2007 were \$427,000, \$432,300 and \$564,922 respectively. There were no fully vested shares granted during 2009. During 2009, we received \$617,000 in cash from the exercise of options, with a \$404,000 tax benefit realized during the period.

The following tables summarize information about employee and director stock options outstanding at December 31, 2009:

## Options Outstanding

Range of Exercise Price	Shares Outstanding at December 31, 2009	Weighted Average Remaining Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$9.28 - \$16.13	297,639	3.57 Years	\$13.38	\$1,465,973
\$18.43 - \$21.11	200,250	6.62 Years	\$19.66	\$0

## Options Exercisable

Range of Exercise Price	Shares Exercisable at December 31, 2009	Weighted Average Remaining Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$9.28 - \$16.13	263,889	2.83 Years	\$13.14	\$1,363,036
\$18.43 - \$21.11	200,250	6.62 Years	\$19.66	\$0

As of December 31, 2009, there was \$32,900 of total unrecognized expense related to non-vested option shares granted under the Plan. The cost will be recognized over the remaining 0.4 years vesting period of the unvested options.

Table of Contents

NOTE 9

EMPLOYEE BENEFIT PLANS

401(k) Plan

Artesian Resources has a defined contribution 401(k) Salary Deduction Plan, or the "401(k) Plan," which covers substantially all employees. Under the terms of the 401(k) Plan, Artesian Resources contributed 2% of eligible salaries and wages and matches employee contributions up to 6% of gross pay at a rate of 50%. Artesian Resources may, at its option, make additional contributions of up to 3% of eligible salaries and wages. No such additional contributions were made in 2009, 2008 and 2007. The 401(k) Plan expenses, which include Company contributions and administrative fees, for the years 2009, 2008 and 2007, were approximately \$618,000, \$617,000, and \$541,000, respectively.

Supplemental Pension Plan

Effective October 1, 1994, Artesian Water established a Supplemental Pension Plan, or the "Supplemental Plan," to provide additional retirement benefits to full-time employees hired prior to April 26, 1994. The Supplemental Plan is a defined contribution plan that enables employees to save for future retiree medical costs, which will be paid by employees. The Supplemental Plan accomplishes this objective by providing additional cash resources to employees upon a termination of employment or retirement, to meet the cost of future medical expenses. Artesian Water has established a contribution based upon each employee's years of service ranging from 2% to 6% of eligible salaries and wages. Artesian Water also provides additional benefits to individuals who were over age 50 as of January 1, 1994. These individuals are referred to as the "Transition Group." Effective November 1, 1994, individuals eligible for the Transition Group had the opportunity to defer compensation to the Supplemental Plan, and to receive a transition matching contribution for 5 years. Each one-dollar of eligible salaries and wages deferred by the Transition Group was matched with three, four, or five dollars by Artesian Water based on the employee's years of service subject to certain limitations under the federal tax rules. Plan expenses, which include Company contributions and administrative fees, for the years 2009, 2008 and 2007, were approximately \$268,000, \$276,000, and \$288,000, respectively.

Postretirement Benefit Plan

Artesian Water has a Postretirement Benefit Plan, or the "Benefit Plan," which provides medical and life insurance benefits to certain retired employees. Prior to the amendment of the Benefit Plan, substantially all employees could become eligible for these benefits if they reached retirement age while still working for Artesian Water.

FASB ASC Topic 715 stipulates that Artesian Water accrue the expected cost of providing postretirement health care and life insurance benefits as employees render the services necessary to earn the benefits. Artesian Resources elected to defer recognition and amortize its transition obligation over twenty years beginning in 1993.

Artesian Water recognized an offsetting regulatory asset with respect to its post retirement liability. This asset is recorded based on the DEPSC order, which permits Artesian Water to continue recovery of postretirement health care and life insurance expense on a pay-as-you-go basis for the remaining eligible employees. Artesian Water expects its post retirement obligation and related expense recovery to cover a period of approximately 20 years (based on the age and life expectancy of the remaining eligible participants). Further, expense recovery as a percentage of rates is expected to remain generally constant over the initial years, and then decline until the obligation is liquidated. Amounts charged to expense were \$75,000, \$44,000, and \$59,000 for 2009, 2008 and 2007, respectively.

The Company uses December 31 as the measurement date to determine the postretirement benefit obligation. According to our actuarial report, the funded status of our defined benefit postretirement plan was calculated contemplating FASB ASC Topic 715 and the obligation is recorded at that amount. There was no other comprehensive income impact because we record a regulatory asset as provided by FASB ASC Topic 980. Additional disclosures required for our postretirement benefit obligation are presented below.

Table of Contents

## Benefit Obligations and Funded Status

In thousands

	Year Ending December 31			
	2009		2008	
Change in Accumulated Postretirement Benefit Obligation				
Accumulated Postretirement Benefit Obligation at the Beginning of the Year	\$801		\$944	
Service Cost	---		---	
Interest Cost	45		53	
Actuarial (Gain) or Loss	53		(91)	)
Benefits Paid	(118)	)	(109)	)
Plan Participant's Contributions	4		4	
Accumulated Postretirement Benefit Obligation at the End of the Year	785		801	
Change in Plan Assets				
Fair Value of Plan Assets at the Beginning of the Year	---		---	
Benefits Paid	(118)	)	(109)	)
Employer Contributions	114		105	
Plan Participant's Contributions	4		4	
Fair Value of Assets at the End of the Year	---		---	
Net Amount Recognized				
Funded Status	(785)	)	(801)	)
Unrecognized Transition Obligation Asset	34		43	
Unrecognized Net Gain or Loss	(98)	)	(166)	)
Net Amount Recognized:	(849)	)	(924)	)
Amounts Recognized in the Statement of Financial Position				
Accrued Benefit Liability-Current	(112)	)	(112)	)
Accrued Benefit Liability-Noncurrent	(737)	)	(812)	)
Net Amount Recognized	\$(849)	)	\$(924)	)
Weighted Average Assumptions at the End of the Year				
Discount Rate	6.00	%	6.00	%
Assumed Health Care Cost Trend Rates				
Health Care Cost Trend Rate Assumed for Next Year	10.00	%	11.00	%
Ultimate Rate	5.00	%	5.00	%
Year that the Ultimate Rate is Reached	2015		2015	

## Net Periodic Benefit Cost

	Year Ending December 31					
In thousands	2009		2008		2007	
Interest Cost	\$45		\$53		\$48	
Amortization of Net (Gain) or Loss	(15)	)	---		(23)	)
Amortization of Transition Obligation/(Asset)	9		9		9	
Total Net Periodic Benefit Cost	\$39		\$62		\$34	
Weighted Average Assumptions						
Discount Rate	6.00	%	6.00	%	6.00	%
Assumed Health Care Cost Trend Rates						
Health Care Cost Trend Rate Assumed for Current Year	11.00	%	11.00	%	11.00	%
Ultimate Rate	5.00	%	5.00	%	5.00	%

Edgar Filing: ARTESIAN RESOURCES CORP - Form 10-K

Year that the Ultimate Rate is Reached	2015	2015	2014
--	------	------	------

Impact of One-Percentage-Point Change in Assumed Health Care Cost Trend Rates

	Increase	Decrease
Effect on Service Cost & Interest Cost	\$2	\$(2 )
Effect on Postretirement Benefit Obligation	\$33	\$(31 )

54

---

Table of Contents

## Contributions

Artesian Water expects to contribute \$108,000 to its postretirement benefit plan in 2010.

The following table represents the benefits expected to be paid:

In thousands	Other Benefits
2010	\$ 108
2011	105
2012	100
2013	94
2014	87
2015 through 2019	311
	\$805

## NOTE 10

## COMMITMENTS AND CONTINGENCIES

## Leases

In October 1997, Artesian Water entered into a 33-year operating lease for a parcel of land with improvements located in South Bethany, a municipality in Sussex County, Delaware. The annual lease payments increase each year by the most recent increase in the Consumer Price Index for Urban Workers, CPI-U, as published by the U.S. Department of Labor, Bureau of Labor Statistics. Rental payments for 2009, 2008 and 2007 were \$12,600, \$12,600, and \$11,900, respectively. The future minimum rental payment as disclosed in the following table is calculated using CPI-U as of October 31, 2009.

During 2003, Artesian Resources entered into a 40-year easement agreement to acquire an easement to access, operate, maintain, repair, improve, replace and connect Artesian's water system to a well, including a parcel of land around the well. Easement payments for 2009, 2008 and 2007 were \$29,000, \$29,000 and \$28,000, respectively.

In October 2006, Artesian Water entered into a 3-year contract for office space located in Sussex County, Delaware. In October 2009 the contract term was extended for an additional year. Rent payments for 2009, 2008 and 2007 were \$48,000, \$46,000 and \$43,000, respectively.

Artesian Wastewater entered into a perpetual agreement for the use of approximately 460 acres of land in Sussex County, Delaware for wastewater disposal. Beginning January 2007, Artesian Wastewater is required to pay a minimum of \$40,000 per year for the use of this land. Once disposal operations begin, the monthly fee will be contingent on the average number of gallons of wastewater disposed on the properties. Payments for 2009, 2008 and 2007 were \$40,000 each year. The agreement can be terminated by giving 180-day notice prior to the termination date.

During September 2007, Artesian Water entered into a 3-year contract for office space located in New Castle County, Delaware. This location is used as general office space while the Artesian Water main office space is being renovated. Rent payments during 2009, 2008 and 2007 were \$79,000, \$77,000 and \$25,000, respectively.

Table of Contents

Future minimum annual rental payments under the above mentioned lease obligations for the years subsequent to 2009 are as follows:

In thousands

2010	\$ 151
2011	44
2012	44
2013	