

Risk Factors Comparison 2024-03-01 to 2023-02-24 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text Section**

If we are unable to pay the principal and interest on our indebtedness as it comes due or we default under certain other provisions of our loan documents, our indebtedness could be accelerated and our results of operations and financial condition could be adversely affected. Our ability to pay the principal and interest on our indebtedness as it comes due will depend upon our current and future performance. Our performance is affected by many factors, some of which are beyond our control. **16-15** ~~Index~~ We believe cash generated from operations and, if necessary, borrowings under existing credit facilities, will be sufficient to enable us to make our debt payments as they become due. If, however, we do not generate sufficient cash, we may be required to refinance our obligations or sell additional equity, which may be on terms that are less favorable than we desire. No assurance can be given that any refinancing or sale of equity will be possible when needed, or that we will be able to negotiate acceptable terms. In addition, our failure to comply with certain provisions contained in our trust indentures and loan agreements relating to our outstanding indebtedness could lead to a default under these documents, which could result in an acceleration of our indebtedness. Our business is subject to seasonal fluctuations, which could affect demand for our water service and our revenues. Demand for our water during the warmer months is generally greater than during colder months due primarily to additional consumption of water in connection with irrigation systems, swimming pools, cooling systems and other outdoor water use. Throughout the year, and particularly during typically warmer months, demand may vary with temperature and rainfall levels. In the event that temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the demand for our water may decrease and adversely affect our revenues. General economic conditions may materially and adversely affect our financial condition and results of operations. Adverse economic conditions could negatively impact our customers' water usage demands, particularly the level of water usage demand by our commercial and industrial customers in our Middlesex System. If water demand by our commercial and industrial customers in our Middlesex System decreases, our financial condition and results of operations could be negatively impacted until completion of a subsequent base rate filing. The current concentration of our business in central New Jersey and in Delaware makes us susceptible to adverse developments in local regulatory, economic, demographic, competitive and weather conditions. Our Middlesex System provides water services to customers located primarily in eastern Middlesex County, New Jersey. Water service is provided under wholesale contracts to the Townships of Edison, East Brunswick and Marlboro, the Borough of Highland Park, the Old Bridge Municipal Utilities Authority and the City of Rahway. We also provide water services to customers in the State of Delaware. Our revenues and operating results are therefore subject to local regulatory, economic, demographic, competitive and weather conditions in a relatively concentrated geographic area. A change in any of these conditions could make it more costly for us to conduct our business. We are subject to anti-takeover measures that may be used to discourage, delay or prevent changes of control that might benefit non-management shareholders. Subsection 10A of the New Jersey Business Corporation Act, known as the New Jersey Shareholders Protection Act, applies to us. The Shareholders Protection Act deters merger proposals, tender offers or other attempts to effect changes in control that are not approved by our Board of Directors. In addition, we have a classified Board of Directors, which means only a portion of the Director population is elected each year. A classified Board can make it more difficult for an acquirer to gain control of the Company by voting its candidates onto the Board of Directors and may also deter merger proposals and tender offers. Our Board of Directors also has the ability, subject to obtaining NJBPU approval, to issue one or more series of preferred stock having such number of shares, designation, preferences, voting rights, limitations and other rights as the Board of Directors may fix. This could be used by the Board of Directors to discourage, delay or prevent an acquisition the Board of Directors determines is not in the best interest of the common shareholders. **16-17 We identified material weaknesses in our internal controls which, if not remediated appropriately or timely, could result in loss of investor confidence and adversely impact our stock price. Internal controls related to the operation of technology systems are critical to maintaining adequate internal control over financial reporting. During the fourth quarter of 2023, management identified a material weakness in internal control related to ineffective information technology general controls (ITGCs) in the areas of user access and change management over certain information technology (IT) systems that support the Company's financial reporting processes. Certain of those controls were found to be deficient because of a lack of sufficient IT control processes designed to prevent or detect unauthorized changes in applications and data in selected IT environments. In December 2023, management implemented various auditing and monitoring solutions that provide greater transparency into changes made within our IT systems. These control solutions are supported by a timely review process that focuses on the proper authorization and approval of IT system changes. Due to the timing of implementing the solutions, the controls implemented did not operate over a sufficient time period to adequately test and validate the remediation and reassess other ITGCs, which may require further remediation actions. In addition, there were ineffective controls related to income tax accounting for a non-routine transaction, which management has identified as a material weakness in internal controls over financial reporting. Therefore, management concluded that our internal control over financial reporting was not effective as of December 31, 2023. Until remediation measures are completed, fully tested and determined effective, we will not be able to conclude that the material weaknesses have been remediated. If we are unable to determine that our remediation measures are effective or otherwise remediate the material weaknesses, or are otherwise unable to maintain effective internal control over financial reporting or disclosure controls and procedures, our ability to record, process and report financial information accurately, and to prepare financial statements within**

required time periods, could be adversely affected, which could subject us to litigation or investigations requiring management resources and payment of legal and other expenses, negatively affecting investor confidence in our financial statements and adversely impacting our stock price.

General Risks We rely on our information technology systems to help manage our operations. Our information technology systems require periodic modifications, upgrades and / or replacement which subject us to costs and risks including potential disruption of our internal control structure, substantial unanticipated capital expenditures, additional operating expenses, retention of sufficiently skilled personnel and other risks in transitioning to new systems or integrating new systems. A failure to modify, upgrade or replace our information technology systems could have an adverse impact on our business. In addition, challenges implementing new technology systems may cause disruptions in our business operations and have an adverse effect on our business operations. Our information technology systems may be subject to physical and cyber attacks. We rely on our computer, information and communications technology systems in connection with the operation of our business, especially with respect to customer service and billing, accounting and, in some cases, the monitoring and operation of our operating facilities. Our computer and communications systems and operations could be damaged or interrupted by natural disasters, cyber- attacks, power loss and internet, telecommunications or data network failures or acts of war or terrorism or similar events or disruptions. Any of these or other events could cause service interruption, delays and loss of critical data or, impede aspects of operations and therefore, adversely affect our financial results. Cyber-attacks could result in the loss, or compromise, of customer, financial or operational data, disruption of billing, collections or normal field service activities, disruption of electronic monitoring and control of operational systems and delays in financial reporting and other management functions. Possible impacts associated with a cyber- incident may include remediation costs related to lost, stolen, or compromised data, repairs to data processing systems, increased cyber security protection costs, adverse effects on our compliance with regulatory and environmental laws and regulations, including standards for drinking water, litigation and reputational damage. **18** ~~The COVID-19 pandemic and the attempt to contain it may harm our business, results of operations, financial condition and liquidity. In January 2023, the United States Secretary of Health and Human Services renewed the determination that a nationwide health emergency exists as a result of the COVID-19 Pandemic with an announced end to the declared health emergency on May 11, 2023. While the Company's operations and capital construction program have not been materially disrupted to date from the pandemic, the impact on economic conditions nationally and the areas the Company operates continues to be uncertain and could affect the Company's results of operations, financial condition and liquidity in the future.~~ We depend significantly on the technical and management services of our team, and the departure of any of certain persons could cause our operating results to temporarily be short of our expectations. Our success depends significantly on the continued individual and collective contributions of our team. If we lose the services of certain members of our team, or are unable to attract and retain qualified personnel in key roles, our operating results could be negatively impacted.

ITEM 1B. UNRESOLVED STAFF COMMENTS.