ORIGINAL

MEMORANDUM

TO: PSC Clerk

FROM: Deana C. Russ
Assistant to Wayne L. Schiefelbein

RE: Chesapeake Utilities Corporation
Our File No. 37019.03

DATE: October 4, 2002

02 OCT -4 PM 1:43
COMMISSION CLERK
RECEIVED-FPSC

021018-GU

On behalf of Chesapeake Utilities Corporation, enclosed for filing, are an original and 5 copies of an Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt, and to Enter Into Agreements for Interest Rate Swap Products, and to Exceed Limitation Placed on Short-Term Borrowings in 2003. I have also included one copy to be date stamped and returned to me.

Please open a docket in this matter.

If you have any questions, please feel free to call.

/dcr
Enclosures

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Rose, Sundstrom & Bentley, LLP
2548 Blairstone Pines Drive, Tallahassee, Florida 32301

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt, and to Enter Into Agreements For Interest Rate Swap Products, and to Exceed Limitation Placed on Short-Term Borrowings in 2003	)	021018-GU

APPLICATION BY CHESAPEAKE UTILITIES CORPORATION FOR AUTHORIZATION TO ISSUE COMMON STOCK, PREFERRED STOCK AND SECURED AND/OR UNSECURED DEBT, AND TO ENTER INTO AGREEMENTS FOR INTEREST RATE SWAP PRODUCTS, AND TO EXCEED LIMITATION PLACED ON SHORT-TERM BORROWINGS IN 2003

Chesapeake Utilities Corporation (Chesapeake, the Company or Applicant) respectfully files this Application, pursuant to Section 366.04 (1), Florida Statutes, seeking authority to issue up to 6,000,000 shares of Chesapeake common stock; up to 1,000,000 shares of Chesapeake preferred stock; up to $80,000,000 in secured and/or unsecured debt; to enter into agreements for Interest Rate Swap Products; and to obtain authorization to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue short-term obligations in an amount not to exceed $40,000,000.

1. Name and principal business offices of Applicant:

   (a) Chesapeake Utilities Corporation
   P.O. Box 615
   909 Silver Lake Boulevard
   Dover, Delaware 19904

   (b) Chesapeake Utilities Corporation
   Florida Division
   P.O. Box 960
   1015 6th Street N.W.
   Winter Haven, Florida 33881

DOCUMENT NUMBER-DATE
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(c) Chesapeake Utilities Corporation
Florida Division
1639 West Gulf to Lake Highway
Lecanto, Florida 33461

2. Incorporated:

Chesapeake Utilities Corporation - Incorporated under the Laws of the State of Delaware on November 12, 1947 and qualified to do business in Florida, Maryland, and Pennsylvania.

3. Person authorized to receive notices and communications in this respect:

Wayne L. Schiefelbein, Esquire
Of Counsel
Rose, Sundstrom & Bentley, LLP
2548 Blairstone Pines Drive
Tallahassee, Florida 32301
(850) 877-6555
(850) 656-4029 (Fax)

Attorneys for Chesapeake Utilities Corporation

4. Capital Stock and Funded Debt:

Chesapeake has authority by provisions contained in its Certificate of Incorporation, as amended, to issue common stock as follows:

(a) Common stock having par value of $.4867.

(b) Amount authorized: 12,000,000 shares.

(c) Amount outstanding as of June 30, 2002: 5,484,404 shares.

(d) Amount held in Treasury: None.

(e) Amount pledged by Applicant: None.

(f) Amount owned by affiliated corporations: None.

(g) Amount held in any fund: None.

Chesapeake has authority by provisions contained in its Certificate of Incorporation, as amended, to issue preferred stock as follows:

(a) Preferred stock having par value of $.01.

(b) Amount authorized: 2,000,000 shares.

(c) Amount outstanding as of June 30, 2002: 0 shares.

(d) Amount held in Treasury: None.

(e) Amount pledged by Applicant: None.

(f) Amount owned by affiliated corporations: None.

(g) Amount held in any fund: None.

The funded indebtedness by class and series are as follows:

(a)1 8.25% Convertible Debentures due March 1, 2014 are convertible prior to maturity, unless previously redeemed, into shares of common stock of Chesapeake at a conversion price of $17.01 per share. Interest on the Debentures is payable on the first day of March and September, commencing September 1, 1989. The Debentures are redeemable at 100% of the principal amount plus accrued interest (i) on March 1 in any year, commencing in 1991, at the option of the holder and (ii) at any time within 60 days after a request on behalf of a deceased holder. At Chesapeake's option, beginning March 1, 1990, the Debentures may be redeemed in whole or in part at redemption prices declining from 107.25%, plus accrued interest. No sinking fund will be established to redeem the Debentures. As of June 30, 2002, there is a remaining balance of $3,320,000 on this issue.

(a)2 9.37% First Mortgage Sinking Fund Bonds, Series I, due December 15, 2004, issued on December 15, 1989, and secured by the Original Indenture dated as of December 1, 1959 between Chesapeake and Maryland National Bank in the principal amount of $8,200,000 bearing interest payable semi-annually with provisions for payment of interest only prior to December 15, 1991; thereafter, principal shall be payable, in addition to interest on the unpaid balance, on or before the fifteenth days of December and June in each year (a) commencing on December 15, 1991, and ending on December 15, 1999, in the sum of $260,000 and (b) commencing on June 15, 2000, and ending on June 15, 2004, in the sum of $378,000. As of June 30, 2002, there is a remaining balance of $1,890,000 on this issue.

(a)3 7.97% Unsecured Senior Notes due February 1, 2008, and issued on February 9, 1993 in the principal amount of $10,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to February 1, 1999; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over ten (10) years at the rate of $1,000,000 per annum. As of June 30, 2002 there is a remaining balance of $6,000,000 on this issue.

(a)4 6.91% Unsecured Senior Notes due October 1, 2010, and issued on October 2, 1995 in the principal amount of $10,000,000 bearing interest payable quarterly with provisions for payment of interest only prior to October 1, 2000; thereafter, principal shall be payable, in addition to interest on the unpaid

balance, over eleven (11) years at the rate of $909,091 per annum. As of June 30, 2002, there is a remaining balance of $8,181,818 on this issue.

(a)5 6.85% Unsecured Senior Notes due January 1, 2012 and issued on December 15, 1997 in the principal amount of $10,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to January 1, 2003; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over ten (10) years at the rate of $1,000,000 per annum. As of June 30, 2002, there is a remaining balance of $10,000,000 on this issue.

(a)6 7.83% Unsecured Senior Notes due January 1, 2015 and issued on December 29, 2000 in the principal amount of $20,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to January 1, 2006; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over ten (10) years at the rate of $2,000,000 per annum. As of June 30, 2002, there is a remaining balance of $20,000,000 on this issue.

(a)7 8.50% Promissory Note due April 6, 2005 and issued on April 6, 2001 in the principal amount of $300,000. This note shall be due and payable based upon a 10-year amortization schedule, with a 5-year balloon payment due April 6, 2005. As of June 30, 2002, there is a remaining balance of $276,618 on this note.

(a)8 6.64% Unsecured Senior Notes due October 31, 2017 and to be issued on October 31, 2002 in the principal amount of $30,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to October 31, 2007; thereafter, principal shall be payable, in addition to interest

on the unpaid balance, over eleven (11) years at the rate of $2,727,272,72 per annum. As of June 30, 2002, there is no balance for this issue, as Chesapeake will consummate the financing on October 31, 2002.

(a)9 0% Auto loan for Sharp Water of Idaho, Inc. due December of 2004 and entered into in January of 2002 in the principal amount of $60,681. This note is due and payable based upon a 3-year amortization schedule. As of June 30, 2002, there is a remaining balance of $50,567 on this auto loan.

(a)10 As of the filing date, the Company had four unsecured bank lines of credit in the following amounts: $10,000,000, $15,000,000, $20,000,000 and $30,000,000. For the $30,000,000 line of credit, $5,000,000 of the total line can be used to guarantee letters of credit issued by Chesapeake's unregulated subsidiary, Xeron, Inc. for up to 364 days. As of June 30, 2002, the total short-term borrowing outstanding under the bank lines of credit was $30,000,000.

(b) The amounts authorized are set forth above.

(c) The amounts outstanding at June 30, 2002 are set forth above.

(d) Amount held as reacquired securities: None.

(e) Amount pledged by Applicant: None.

(f) Amount owned by affiliated corporations: None.

(g) Amount in Sinking Fund or other funds: None.

5. <u>Authorizations Requested:</u>

Chesapeake requests authorization from the FPSC to issue up to 904,666 new shares of its common stock during 2003 for the purpose of administering

Chesapeake's Retirement Savings Plan, Performance Incentive Plan, Automatic Dividend Reinvestment and Stock Purchase Plan and conversion of the Company's Convertible Debentures. The share breakdown for each specific purpose is as follows:

Number of Shares	Purpose
250,987	Issuance pursuant to the Company's Retirement Savings Plan.
336,241	Issuance under the terms of the Company's Performance Incentive Plan.
122,259	Issuance pursuant to the Company's Automatic Dividend Reinvestment and Stock Purchase Plan.
195,179	Issuance under the terms of the Company's outstanding 8 1/4% Convertible Debentures.

Chesapeake requests FPSC authorization to issue up to $40,000,000 in secured and/or unsecured debt during 2003 for general corporate purposes including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt and capital improvements. Chesapeake is also requesting FPSC authorization during 2003 to issue up to 5,095,334 shares of common stock and up to $40,000,000 in secured and/or unsecured debt for possible acquisitions. Due to the nature of typical cash for stock acquisitions, the $40,000,000 in secured and/or unsecured debt may be initially issued through a bridge loan in the form of notes held by banks or some similar form of short-term obligations.

For this reason, Chesapeake seeks FPSC authorization to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue short-term obligations in an amount not to exceed $40,000,000 during

2003. The bridge financing would subsequently be refinanced as unsecured long-term debt with an estimated rate of interest of up to 300 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life.

Chesapeake is also requesting authority to issue up to 1,000,000 shares of Chesapeake preferred stock for possible acquisitions, financing transactions, and other general corporate purposes, including potential distribution under the Company's Shareholder Rights Agreement ("Rights Agreement") adopted by the Board of Directors on August 20, 1999.

Chesapeake seeks FPSC approval to enter into financial agreements with financial institutions to enter into interest rate swaps, collars, caps and/or floors (the "Interest Rate Swap Products") on such terms as Chesapeake considers to be appropriate, provided that the notional amount(s) for said Interest Rate Swap Products do(es) not, in the aggregate, exceed the sum of $30 million. While the Company does not consider such Interest Rate Swap Products to involve the actual issuance of securities within the ambit of Section 366.04(1), Florida Statutes, in an abundance of caution, Chesapeake requests such authority to the extent the FPSC considers Interest Rate Swap Products subject to its jurisdiction. In the event that the FPSC does not consider Interest Rate Swap Products to be jurisdictional, Chesapeake requests that that FPSC issue an Order acknowledging its request in this regard.

6. <u>Purposes for which Securities are to be issued:</u>

(a) Chesapeake's Retirement Savings Plan ("RSP") was implemented on February 1, 1977. As of June 30, 2002, the RSP had 353 participants; a total market valuation of $19,241,002; and 404,549 shares of the Company's common stock. True and correct copies of the current RSP Plan Document and Adoption Agreement have been previously filed with the FPSC as Exhibits A and B of the Application for Modification of Authority to Issue Common Stock During the Twelve Months Ending December 31, 1999, Docket No. 981213-GU, dated June 25, 1999, and are hereby incorporated by reference. Pursuant to the RSP, the first 100% of an employee's contribution, up to a maximum 6% of his/her salary, is matched by the Company in shares of Chesapeake common stock. Additional employee dollars that are matched by the Company are invested according to the respective employee's 401(k) designation. The RSP was amended at the end of 1998 to provide for a larger employer matching amount, from 60% to as much as 200%, and at the same time the Company's Pension Plan was closed off to new employees. Accordingly, as the employer matching amount has increased, so has the number of shares being issued under the RSP.

To continue to balance the composition of debt and equity, Chesapeake wants to maintain flexibility in how the RSP is funded, i.e., with new shares of its stock, buying shares on the open market, and/or a combination of both funding methods.

On June 23, 1992, the Delaware Public Service Commission issued Order No. 3425 approving the issuance of up to 100,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's RSP. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of the Order has been previously filed with the FPSC as Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. On July 13, 1999, the Delaware Public Service Commission issued Order No. 5165 approving the issuance of an additional 100,000 new shares of Chesapeake common stock for the purpose of administering the RSP. Please note that this Order by the Delaware Public Service Commission is also "open ended" in the sense that there is no time limit by which approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit C of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 2000, Docket No. 991631-GU, dated October 20, 1999, and is hereby incorporated by reference. On December 19, 2000, the Delaware Public Service Commission issued Order No. 5609 approving the issuance of an

additional 300,000 new shares of Chesapeake common stock for the purpose of administering the RSP. Please note that this Order by the Delaware Public Service Commission is also "open ended" in the sense that there is no time limit by which approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit E of the Consummation Report of Securities Issued by Chesapeake Utilities Corporation, Docket No. 991631-GU, dated March 29, 2001, and is hereby incorporated by reference. Pursuant to these Orders, Chesapeake has issued 249,013 new shares of common stock for the RSP as of June 30, 2002. Thus, there remains to be issued 250,987 shares as authorized by the Delaware Public Service Commission.

The FPSC approved the issuance and sale of up to 303,144 shares of common stock for the Plan during 2002 by Order Nos. PSC-01-2274-FOF-GU, issued November 19, 2001 and PSC-01-2274A-FOF-GU, issued December 5, 2001. Chesapeake now seeks FPSC authorization to issue up to 250,987 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Retirement Savings Plan during 2003.

(b) On May 19, 1992, the common stock shareholders of Chesapeake voted in favor of adopting the Chesapeake Utilities Corporation Performance Incentive Plan ("PIP"). On May 19, 1998, the common stock shareholders of Chesapeake approved several amendments to the PIP. A copy of the amended PIP agreement has been previously filed with the FPSC as Exhibit C of the Application for Approval of Issuance and Sale of

Securities by Chesapeake Utilities Corporation, Docket No. 981213-GU, dated September 23, 1998, and is hereby incorporated by reference.

The purposes of the PIP are (1) to further the long-term growth and earnings of the Company by providing incentives and rewards to those executive officers and other key employees of the Company and its subsidiaries who are in positions in which they can contribute significantly to the achievement of that growth; (2) to encourage those employees to obtain proprietary interests in the Company and to remain as employees of the Company; and (3) to assist the Company in recruiting able management personnel.

To accomplish these objectives, the PIP authorizes the grant of nonqualified stock options, performance shares of the Company's common stock and stock appreciation rights, or any combination thereof. The PIP, as it was originally adopted by the common stock shareholders of Chesapeake in 1992, provided that over a ten year period beginning in 1992, any one or more types of awards for up to a total of 200,000 shares of Chesapeake's common stock may be granted. On June 23, 1992, the Delaware Public Service Commission issued Order No. 3425 approving the issuance of up to 200,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's PIP. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC

as Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference.

The amendments to the PIP adopted by the common stock shareholders of Chesapeake on May 19, 1998 changed the terms and provisions of the PIP as follows: (1) the aggregate number of shares of common stock subject to awards was increased from 200,000 shares to 400,000 shares; (2) the term of the PIP was extended for five years through December 31, 2006; and (3) the Board of Directors was granted greater flexibility to amend, modify or terminate the PIP, subject to shareholder approval requirements imposed by applicable law. On July 13, 1999, the Delaware Public Service Commission issued Order No. 5165 approving the issuance of an additional 200,000 new shares of Chesapeake common stock for the purpose of administering the PIP, coinciding with these amendments. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit C of the Application by Chesapeake Utilities Corporation for authorization to issue common stock, preferred stock and secured and/or unsecured debt and to exceed limitation placed on short-term borrowings in 2000, Docket No. 991631-GU, dated October 20, 1999, and is hereby incorporated by reference.

Pursuant to the PIP, Chesapeake has issued 63,759 new shares of common stock as of June 30, 2002. Thus, there remains to be issued 336,241 shares as previously authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 351,124 shares of common stock for the PIP during 2002 by Order Nos. PSC-01-2274-FOF-GU, issued November 19, 2001 and PSC-01-2274A-FOF-GU, issued December 5, 2001. Chesapeake now seeks FPSC authorization to issue up to 336,241 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Performance Incentive Plan during 2003. The 336,241 shares should be adequate to cover any awards granted to executives and other key officers of the Company and its subsidiaries in 2003.

(c) Chesapeake's Automatic Dividend Reinvestment and Stock Purchase Plan ("DRP") was implemented on April 27, 1989. The DRP Administrator currently has the flexibility of purchasing shares of Chesapeake common stock on the open market, using Treasury stock or issuing new common stock. The gradual issuance of new common stock enables Chesapeake to balance the composition of its capital between common stock and long-term debt. As of June 30, 2002, the DRP had 1,331 stockholder participants.

A copy of the DRP as filed on Registration Statement Form S-3 with the Securities and Exchange Commission has been previously filed with the FPSC as Exhibit D of the Application for Approval of Issuance

and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 961194-GU, dated October 1, 1996, and is hereby incorporated by reference. On May 23, 1989, the Delaware Public Service Commission issued Order No. 3071 approving the issuance of up to 200,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's DRP. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. On December 20, 1995, the Delaware Public Service Commission issued Order No. 4097 approving the issuance of an additional 300,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's DRP. Please note that this Order by the Delaware Public Service Commission is also "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit E of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 961194-GU, dated October 1, 1996, and is hereby incorporated by reference. Pursuant to the Orders above, Chesapeake has issued 377,741 new shares of common stock as

of June 30, 2002. Thus, there remains to be issued 122,259 shares as authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 170,118 shares for the DRP during 2002 by Order Nos. PSC-01-2274-FOF-GU, issued on November 19, 2001 and PSC-01-2274A-FOF-GU, issued on December 5, 2001. Chesapeake now seeks FPSC authorization to issue up to 122,259 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Automatic Dividend Reinvestment and Stock Purchase Plan during 2003.

(d) On April 4, 1989, Chesapeake issued $5,000,000 in 8.25% Convertible Debentures as part of a public offering. As of June 30, 2002, $3,320,000 remained outstanding with a conversion price of $17.01 per share. Hence, the maximum number of shares of common stock that could be issued upon conversion is 195,179. A true and correct copy of the Registration Statement on Form S-2 dated February 16, 1989, as filed with the Securities and Exchange Commission, has been previously filed with the FPSC as Exhibit I of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference.

The Debentures had a conversion premium greater than the offering price of the common stock issue, no mandatory sinking fund, and became callable after one year at a premium equal to the interest rate

less 1%, declining 1/2% per year thereafter. There is an optional bondholder redemption feature which allows any debenture holder to present any Debenture for redemption, at par, on the anniversary date of the issue, subject to annual limitations of $10,000 per debenture holder and $200,000 in the aggregate. These optional redemption rights began on April 1, 1991. In addition, subject to the annual limitations of $10,000 per debenture holder and $200,000 in the aggregate, Chesapeake will redeem the Debentures of deceased debenture holders within 60 days of notification. Such redemption of estate Debentures shall be made prior to other Debentures.

On February 14, 1989, the Delaware Public Service Commission issued Order No. 3040 approving the issuance of $5,000,000 in Convertible Debentures and, inherently, their potential conversion into Chesapeake common stock. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference.

As of June 30, 2002, a cumulative $760,000 of the Convertible Debentures have been converted. The FPSC approved the issuance and sale of up to 201,176 new shares of Chesapeake common stock for the

purpose of honoring conversion rights pursuant to the Company's Convertible Debentures during 2002, by Order Nos. PSC-01-2274-FOF-GU, issued on November 19, 2001 and PSC-01-2274A-FOF-GU, issued on December 5, 2001. Chesapeake now seeks FPSC authorization to issue up to 195,179 new shares of Chesapeake common stock for the purpose of honoring these conversion rights during 2003.

(e) Chesapeake seeks FPSC authorization to issue during 2003 up to $40,000,000 in secured and/or unsecured long-term debt with an estimated rate of interest of up to 300 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life. Proceeds from this debt issuance would be used for general corporate purposes including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt and capital improvements. The FPSC approved the issuance and sale of $40,000,000 in secured and/or unsecured long-term debt during 2002 by Order Nos. PSC-01-2274-FOF-GU, issued on November 19, 2001 and PSC-01-2274A-FOF-GU, issued on December 5, 2001.

(f) Chesapeake seeks FPSC authorization to issue during 2003 up to 5,095,334 shares of common stock and $40,000,000 in secured and/or unsecured long-term debt with an estimated rate of interest of up to 300 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life. This stock and debt would be used to finance Chesapeake's ongoing acquisition program of related businesses.

Chesapeake expects to continue to search for growth opportunities through acquisitions which fit its long-range plan to achieve the proper mix of business activities. Financing of acquisitions will depend upon the nature and extent of potential acquisitions as well as current market and economic conditions.

The FPSC approved the issuance and sale of 4,974,438 shares of common stock and $40,000,000 in secured and/or unsecured long-term debt during 2002 by Order Nos. PSC-01-2274-FOF-GU, issued on November 19, 2001 and PSC-01-2274A-FOF-GU, issued on December 5, 2001.

(g) Chesapeake seeks FPSC authorization to issue up to 1,000,000 shares of Chesapeake preferred stock during 2003 for possible acquisitions, financing transactions, and other general corporate purposes, including potential distribution under the Company's Rights Agreement adopted by the Board of Directors on August 20, 1999. The Rights Agreement approved by the Board of Directors is designed to protect the value of the outstanding common stock in the event of an unsolicited attempt by an acquirer to take over the Company in a manner or on terms not approved by the Board of Directors. The Rights Agreement is not intended to prevent a takeover of the Company at a fair price and should not interfere with any merger or business combination approved by the Board of Directors. Copies of the Forms 8-A and 8-K filed with the Securities and Exchange Commission in conjunction with the Rights Agreement have

been previously filed with the FPSC as Exhibit D of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 2000, Docket No. 991631-GU, dated October 20, 1999, and are hereby incorporated by reference.

As of June 30, 2002, zero (0) shares of Chesapeake preferred stock have been issued. The FPSC approved the issuance and sale of up to 1,000,000 shares of Chesapeake preferred stock for possible acquisitions, financing transactions, and other general corporate purposes, including potential distribution under the Company's Rights Agreement, during 2002 by Order Nos. PSC-01-2274-FOF-GU, issued on November 19, 2001 and PSC-01-2274A-FOF-GU, issued on December 5, 2001.

(h) Chesapeake is also requesting authority during 2003 to enter into agreements for Interest Rate Swap Products on such terms as Chesapeake considers to be appropriate provided that the notional amount(s) for said Interest Rate Swap Products does not, in the aggregate, exceed the sum of $30 million. On July 9, 2002, the Delaware Public Service Commission issued Order No. 5989 approving the Company's application for approval of the issuance of certain long-term debt, and acknowledging that the Company was considering entering into, or utilizing Interest Rate Swap Products. By this Order, the Delaware

Public Service Commission requested that Chesapeake provide the Commission information on the nature of the derivative product, the length of the transaction, its terms and conditions, and whether such derivative products will likely be cost effective, as soon as the applicable information is available for each derivative transaction. A copy of this Order is being filed herewith as Exhibit C.

By Order No. PS-021102-FOF-GU, issued on August 12, 2002, the FPSC approved the Company's application for a modification of authority to issue secured and/or unsecured debt during 2002, to allow the Company to enter into interest rate swaps, in an amount, in the aggregate, not to exceed $30 million.

7. Lawful objects and purposes:

The common stock, preferred stock and long-term debt authorized for issuance will be used for the purpose of administering Chesapeake's Retirement Savings Plan, Performance Incentive Plan, Automatic Dividend Reinvestment and Stock Purchase Plan, conversion of the Company's Convertible Debentures, financing of the Company's acquisition program and for other corporate purposes including, but not limited to the following: working capital; retirement of short-term debt; retirement of long-term debt; capital improvements; and potential distribution under the Rights Agreement. Chesapeake believes that Interest Rate Swap Products would provide Chesapeake with an additional opportunity to achieve lower cost funding of existing and prospective debt placements, as well as enhanced flexibility to manage the Company's exposure to interest rates as

market conditions permit. These are all for lawful objects within the corporate purposes of Chesapeake and compatible with the public interest and are reasonably necessary or appropriate for such purposes.

8. Counsel:

The legality of the common stock, preferred stock and debt issuances will be passed upon by William A. Denman, Esquire, Parkowski & Guerke, 116 West Water Street, Dover, Delaware 19904, who will rely on Wayne L. Schiefelbein, Esquire, Of Counsel, Rose, Sundstrom & Bentley, LLP, 2548 Blairstone Pines Drive, Tallahassee, Florida 32301, as to matters of Florida law.

9. Other Regulatory Agencies:

Under 26 Del. C Section 215 of the Delaware statutes, Chesapeake is regulated by the Delaware Public Service Commission and, therefore, must file a Prefiling Notice, a Notice, and an Application to obtain approval of the Delaware Commission before issuing new securities which mature more than one (1) year from the date of issuance. In addition, a Notice must be filed if Chesapeake expects to incur short-term indebtedness which exceeds ten percent of the Company's total capitalization. All necessary applications or registration statements have been or will be made as required and will be made a part of the final consummation report to the FPSC as required by Rule 25-8.009, Florida Administrative Code.

The address of the Delaware Commission is as follows:

Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building
Dover, Delaware 19904
Attention: Bruce H. Burcat, Executive Director

10. Control or ownership:

Applicant is not owned by any other company nor is Applicant a member of any holding company system.

11. Exhibits:

The following exhibits submitted with Applicant's Applications in Docket Nos. 991631-GU, 981213-GU, 961194-GU and 931112-GU, respectively, are incorporated in the instant Application by reference:

Docket No. 991631-GU

Exhibit C: Delaware Public Service Commission Order No. 5165 Dated July 13,1999 for the Issuance of Common Stock pursuant to Chesapeake Utilities Corporation Retirement Savings Plan (100,000 shares) and Chesapeake Utilities Corporation Performance Incentive Plan (200,000 shares).

Exhibit D: Securities and Exchange Commission Form 8-A For Registration of Certain Classes of Securities Pursuant to Section 12(B) or 12 (G) of the Securities Exchange Act of 1934 Securities and Exchange Commission Form 8-K Current Report

Docket No. 981213-GU (as amended on June 25, 1999)

Exhibit A: Chesapeake Utilities Corporation Retirement Savings Plan-Plan Document.

Exhibit B: Chesapeake Utilities Corporation Retirement Savings Plan-Adoption Agreement.

Docket No. 981213-GU

Exhibit C: Chesapeake Utilities Corporation Amended Performance Incentive Plan.

Docket No. 961194-GU

Exhibit D: Chesapeake Utilities Corporation Automatic Dividend Reinvestment and Stock Purchase Plan as filed with the Securities and Exchange Commission on Registration Statement Form S-3 dated December 1, 1995.

Exhibit E: Delaware Public Service Commission Order No. 4097 dated December 20, 1995, for the issuance of 300,000 shares pursuant to Chesapeake Utilities Corporation's Automatic Dividend Reinvestment and Stock Purchase Plan.

Docket No. 931112-GU

Exhibit I: Chesapeake Utilities Corporation Public Offering of Common Stock and Convertible Debentures as filed with the Securities and Exchange Commission on Registration Statement Form S-2 dated February 16, 1989.

Exhibit J: Orders of the Delaware Public Service Commission Authorizing the Issuance of Common Stock.

Filed herewith:

Exhibit A: Exhibit A consists of the following attachments:

A(1) Chesapeake Utilities Corporation Annual Report on Form 10-K for the year ended December 31, 2001.

A(2) Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

Exhibit B: Sources and Uses of Funds Statement and Construction Budget.

Exhibit C: Delaware Public Service Commission Order No. 5989 dated July 9, 2002.

12. Constitutionality of Statute:

Chesapeake has taken the position that the statutory requirement of FPSC approval of the issuance and sale of securities by a public utility, under Section 366.04 (1), Florida Statutes, as applied to Chesapeake, a Delaware corporation

engaged in interstate commerce, is unconstitutional, in that it creates an unreasonable burden on interstate commerce. Support for this position is set out in Chesapeake's Petition for declaratory statement disclaiming jurisdiction, as filed in FPSC Docket No. 930705-GU.

By FPSC Order No. PSC-93-1548-FOF-GU, issued on October 21, 1993, the FPSC denied the Petition for declaratory statement, while approving the alternative Application for approval of the issuance of up to 100,000 new shares of common stock for the purpose of administering a Retirement Savings Plan. The FPSC found that "the facial constitutionality of a statute cannot be decided in an administrative proceeding," and that since the stock issuance was approved, "the question of constitutionality appears to be academic at this time."

Chesapeake continues to maintain that the assertion of jurisdiction by the FPSC over its securities unconstitutionally burdens interstate commerce, particularly where the Public Service Commission of the State of Delaware has approved their issuance and sale, and/or where the securities do not create a lien or encumbrance on assets of Chesapeake's public utility operations in the State of Florida.

Florida law provides for severe penalties for any willful violation of a statute administered by the FPSC or any of its rules or orders. Secs. 350.127 (1) and 366.095, Florida Statutes. Accordingly, Chesapeake believes it must submit to FPSC jurisdiction over its securities if it is to avoid assessment of such penalties and to otherwise remain in good standing before the FPSC. It therefore

files the instant Application, under protest, and without waiver of its position regarding the unconstitutionality of the statute.

PRAYER FOR RELIEF

Based on the foregoing, Chesapeake Utilities Corporation requests that the FPSC issue an Order authorizing it in 2003 to issue up to 6,000,000 shares of common stock, up to 1,000,000 shares of preferred stock, and up to $80,000,000 of secured and/or unsecured debt, and authorizing it to enter into agreements for Interest Rate Swap Products and to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue up to $40,000,000 in short-term obligations.

Respectfully submitted,

Date: October 4, 2002

for Wayne L. Schiefelbein
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Tallahassee, Florida 32301
(850) 877-6555
(850) 656-4029 (Fax)

Attorneys for
Chesapeake Utilities Corporation

STATE OF DELAWARE *

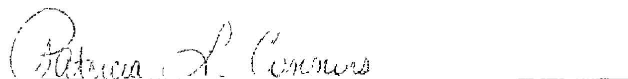
*

COUNTY OF KENT * SS

BE IT REMEMBERED that on this 1st day of October, 2002, personally appeared before me, a Notary Public for the State of Delaware, Michael P. McMasters, who being by me duly sworn, did depose and say that he is Vice President, Treasurer and CFO of Chesapeake Utilities Corporation, a Delaware corporation, and that insofar as the Application of Chesapeake Utilities Corporation states facts, and insofar as those facts are within his personal knowledge, they are true; and insofar as those facts that are not within his personal knowledge, he believes them to be true, and that the exhibits accompanying this Application and attached hereto are true and correct copies of the originals of the aforesaid exhibits, and that he has executed this Application on behalf of the Company and pursuant to the authorization of its Board of Directors.

Michael P. McMasters
Vice President, Treasurer & CFO

SWORN TO AND SUBSCRIBED before me the day and year first above written.



Notary Public
My Commission Expires: 3/19/04

EXHIBIT A

A(1) Chesapeake Utilities Corporation Annual Report on Form 10-K for the year ended December 31, 2001.

A(2) Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

CHESAPEAKE UTILITIES CORPORATION
2003 SUMMARY OF ESTIMATED CAPITAL EXPENDITURES
DISTRIBUTION UTILITY PLANT
UNAUDITED

EXHIBIT B

PLANT ACCOUNT NUMBER	DESCRIPTION	TOTAL 2003 CAPITAL ESTIMATED
301	ORGANIZATION	$0
302	FRANCHISE AND CONSENTS	$0
303	INTANGIBLE PLANT	$0
304	LAND AND LAND RIGHTS	$0
305	STRUCTURES AND IMPROVEMENTS	$0
311	PROPANE PLANT	$0
374	LAND AND LAND RIGHTS	$0
375	STRUCTURES AND IMPROVEMENTS	$29,800
376	MAINS	$2,081,106
378	M & R EQUIPMENT - GENERAL	$75,000
379	M & R EQUIPMENT - CITY GATE	$236,436
380	SERVICES	$710,090
381	METERS	$170,450
382	METER INSTALLATIONS	$125,100
383	HOUSE REGULATORS	$97,490
384	REGULATOR INSTALLATIONS	$0
385	INDUSTRIAL M & R STATION	$107,000
387	OTHER EQUIPMENT	$30,924
389	LAND AND LAND RIGHTS	$0
390	STRUCTURES AND IMPROVEMENTS	$0
391	OFFICE FURNITURE AND EQUIPMENT	$49,095
392	TRANSPORTATION	$133,000
393	STORES EQUIPMENT	$0
394	TOOLS, SHOP, AND GARAGE EQUIP	$9,400
395	LABORATORY EQUIPMENT	$0
396	POWER OPERATED EQUIPMENT	$30,400
397	COMMUNICATIONS EQUIPMENT	$118,000
398	MISCELLANEOUS EQUIPMENT	$10,000
399	OTHER TANGIBLE PROPERTY	$0
	TOTAL CAPITAL EXPENDITURES	$4,013,291

SOURCES AND USES OF FUNDS

The proceeds from stock and debt issuances will be used to administer the Company's Retirement Savings Plan, Performance Incentive Plan, Automatic Dividend Reinvestment and Stock Purchase Plan and Convertible Debentures, as well as for other corporate purposes including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt, capital improvements and/or acquisitions.

Exhibit A(1)

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended: December 31, 2001 Commission File Number: 001-11590

CHESAPEAKE UTILITIES CORPORATION

(Exact name of registrant as specified in its charter)

State of Delaware	51-0064146
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

909 Silver Lake Boulevard, Dover, Delaware 19904
(Address of principal executive offices, including zip code)

302-734-6799
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock - par value per share $.4867	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:
8.25% Convertible Debentures Due 2014
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X]. No [ ].

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

As of March 25, 2002, 5,456,536 shares of common stock were outstanding. The aggregate market value of the common shares held by non-affiliates of Chesapeake Utilities Corporation, based on the last trade price on March 25, 2002, as reported by the New York Stock Exchange, was approximately $99.9 million.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2001 Annual Meeting of Stockholders are incorporated by reference in Part III.

CHESAPEAKE UTILITIES CORPORATION

FORM 10-K

YEAR ENDED DECEMBER 31, 2001

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PART I

ITEM 1. BUSINESS

Chesapeake has made statements in this Form 10-K that are considered to be forward-looking statements. These statements are not matters of historical fact. Sometimes they contain words such as "believes," "expects," "intends," "plans," "will," or "may," and other similar words of a predictive nature. These statements relate to matters such as customer growth, changes in revenues or margins, capital expenditures, environmental remediation costs, regulatory approvals, market risks associated with the Company's propane marketing operation, the competitive position of the Company and other matters. It is important to understand that these forward-looking statements are not guarantees, but are subject to certain risks and uncertainties and other important factors that could cause actual results to differ materially from those in the forward-looking statements. See Item 7 under the heading "Management's Discussion and Analysis — Cautionary Statement."

(a) General Development of Business

Chesapeake Utilities Corporation ("Chesapeake" or "the Company") is a diversified utility company engaged primarily in natural gas distribution and transmission, propane distribution and marketing, and providing advanced information services.

Chesapeake's three natural gas distribution divisions serve approximately 42,700 residential, commercial and industrial customers in southern Delaware, Maryland's Eastern Shore and Florida. The Company's natural gas transmission subsidiary, Eastern Shore Natural Gas Company ("Eastern Shore"), operates a 281-mile interstate pipeline system that transports gas from various points in Pennsylvania to the Company's Delaware and Maryland distribution divisions, as well as to other utilities and industrial customers in Southern Pennsylvania, Delaware and on the Eastern Shore of Maryland. The Company's propane distribution operation serves approximately 34,600 customers in southern Delaware, the Eastern Shore of both Maryland and Virginia and parts of Florida. The advanced information services segment provides consulting, custom programming, training and development tools for national and international clients.

(b) Financial Information about Industry Segments

Financial information by business segment is included in Item 7 under the heading "Notes to Consolidated Financial Statements — Note C."

(c) Narrative Description of Business

The Company is engaged in three primary business activities: natural gas distribution and transmission, propane distribution and marketing, and advanced information services. In addition to the three primary groups, Chesapeake has subsidiaries in other service-related businesses.

(i) (a) Natural Gas Distribution and Transmission
General

Chesapeake distributes natural gas to approximately 42,700 residential, commercial and industrial customers in southern Delaware, the Salisbury and Cambridge, Maryland areas on Maryland's Eastern Shore, and Florida. These activities are conducted through three utility divisions, one division in Delaware, another in Maryland and a third division in Florida. The Company offers natural gas supply and supply management services in the state of Florida under the name of Peninsula Energy Services Company ("PESCO").

Delaware and Maryland. Chesapeake's Delaware and Maryland utility divisions ("Delaware," "Maryland" or "the divisions") serve an average of approximately 32,400 customers, of which approximately 32,230 are residential and commercial customers purchasing gas primarily for heating purposes. The remainder are industrial customers. For the year 2001, residential and commercial customers accounted for approximately 78% of the volume delivered by

the divisions and 70% of the divisions' revenue. The divisions' industrial customers purchase gas, primarily on an interruptible basis, for a variety of manufacturing, agricultural and other uses. Most of Chesapeake's customer growth in these divisions comes from new residential construction using gas heating equipment.

Florida. The Florida division distributes natural gas to approximately 10,500 residential and commercial and 92 industrial customers in Polk, Osceola, Hillsborough, Gadsden, Gilchrist, Union, Holmes, Jackson, Desoto, Suwannee and Citrus Counties. Currently the 92 industrial customers, which purchase and transport gas either on a firm or an interruptible basis, account for approximately 93% of the volume delivered by the Florida division and 40% of the revenues. These customers are primarily engaged in the citrus and phosphate industries and in electric cogeneration. The Company's Florida division, through Peninsula Energy Services Company provides natural gas supply management services to 203 customers.

Eastern Shore. The Company's wholly owned transmission subsidiary, Eastern Shore, operates an interstate natural gas pipeline and provides open access transportation services for affiliated and non-affiliated companies through an integrated gas pipeline extending from southeastern Pennsylvania to Delaware and the Eastern Shore of Maryland. Eastern Shore also provides contract storage services as a sales service for system balancing purposes ("swing gas"). Eastern Shore's rates are subject to regulation by the Federal Energy Regulatory Commission ("FERC").

Adequacy of Resources

General. The Delaware and Maryland divisions have both firm and interruptible contracts with four interstate "open access" pipelines including Eastern Shore. The divisions are directly interconnected with Eastern Shore and services upstream of Eastern Shore are contracted with Transco Gas Pipeline Corporation ("Transco"), Columbia Gas Transmission ("Columbia") and Columbia Gulf Transmission Company ("Gulf"). The divisions use their firm transportation supply resources to meet a significant percentage of their projected demand requirements. In order to meet the difference between firm supply and firm demand, the divisions purchase natural gas supply on the "spot market" from various suppliers that is transported by the upstream pipelines and delivered to the divisions' interconnects with Eastern Shore. The divisions also have the capability to use propane-air peak-shaving to supplement or displace the "spot market" purchases. The Company believes that the availability of gas supply to the Delaware and Maryland divisions is adequate under existing arrangements to meet the anticipated needs of their customers.

Delaware. Delaware's contracts with Transco include: (a) firm transportation capacity of 8,663 dekatherms ("Dt") per day, which expires in 2005; (b) firm transportation capacity of 311 Dt per day for December through February, expiring in 2006; and (c) firm storage service, providing a total capacity of 142,830 Dt, with provisions to continue from year to year, subject to six (6) months notice for termination.

Delaware's contracts with Columbia include: (a) firm transportation capacity of 852 Dt per day, which expires in 2014; (b) firm transportation capacity of 1,132 Dt per day, which expires in 2017; (c) firm transportation capacity of 549 Dt per day, which expires in 2018; (d) firm transportation capacity of 899 per day, which expires in 2019; (e) firm storage service providing a peak day entitlement of 6,193 Dt and a total capacity of 298,195 Dt, which expires in 2014; (f) firm storage service, providing a peak day entitlement of 635 Dt and a total capacity of 57,139 Dt, which expires in 2017; (g) firm storage service providing a peak day entitlement of 583 Dt and a total capacity of 52,460 Dt, which expires in 2018; and (h) firm storage service providing a peak day entitlement of 583 Dt and a total capacity of 52,460 Dt, which expires in 2019. Delaware's contracts with Columbia for storage-related transportation provide quantities that are equivalent to the peak day entitlement for the period of October through March and are equivalent to fifty percent (50%) of the peak day entitlement for the period of April through September. The terms of the storage-related transportation contracts mirror the storage services that they support.

Delaware's contract with Gulf, which expires in 2004, provides firm transportation capacity of 868 Dt per day for the period November through March and 798 Dt per day for the period April through October.

Delaware's contracts with Eastern Shore include: (a) firm transportation capacity of 30,225 Dt per day for the period December through February, 29,003 Dt per day for the months of November, March and April, and 19,927 Dt per day for the period May through October, with various expiration dates ranging from 2004 to 2017; (b) firm storage capacity under Eastern Shore's Rate Schedule GSS providing a peak day entitlement of 2,655 Dt and a total capacity of 131,370 Dt, which expires in 2013; (c) firm storage capacity under Eastern Shore's Rate Schedule LSS providing a peak day entitlement of 580 Dt and a total capacity of 29,000 Dt, which expires in 2013; and (d) firm storage capacity under Eastern Shore's Rate Schedule LGA providing a peak day entitlement of 911 Dt and a total capacity of 5,708 Dt, which expires in 2006. Delaware's firm transportation contracts with Eastern Shore also include Eastern Shore's provision of swing transportation service. This service includes: (a) firm transportation capacity of 1,846 Dt per day on Transco's pipeline system, retained by Eastern Shore, in addition to Delaware's Transco capacity referenced earlier and (b) an interruptible storage service under Transco's Rate Schedule ESS that supports a swing supply service provided under Transco's Rate Schedule FS.

Delaware currently has contracts for the purchase of firm natural gas supply with several suppliers. These supply contracts provide the availability of a maximum firm daily entitlement of 19,700 Dt and the supplies are transported by Transco, Columbia, Gulf and Eastern Shore under firm transportation contracts. The gas purchase contracts have various expiration dates and daily quantities may vary from day to day and month to month.

Maryland. Maryland's contracts with Transco include: (a) firm transportation capacity of 4,738 Dt per day, which expires in 2005; (b) firm transportation capacity of 155 Dt per day for December through February, expiring in 2006; and (c) firm storage service providing a total capacity of 33,120 Dt, with provisions to continue from year to year, subject to six months notice for termination.

Maryland's contracts with Columbia include: (a) firm transportation capacity of 442 Dt per day, which expires in 2014; (b) firm transportation capacity of 908 Dt per day, which expires in 2017; (c) firm transportation capacity of 350 Dt per day, which expires in 2018; (d) firm storage service providing a peak day entitlement of 3,142 Dt and a total capacity of 154,756 Dt, which expires in 2014; and (e) firm storage service providing a peak day entitlement of 521 Dt and a total capacity of 46,881 Dt, which expires in 2017. Maryland's contracts with Columbia for storage-related transportation provide quantities that are equivalent to the peak day entitlement for the period October through March and are equivalent to fifty percent (50%) of the peak day entitlement for the period April through September. The terms of the storage-related transportation contracts mirror the storage services that they support.

Maryland's contract with Gulf, which expires in 2004, provides firm transportation capacity of 590 Dt per day for the period November through March and 543 Dt per day for the period April through October.

Maryland's contracts with Eastern Shore include: (a) firm transportation capacity of 13,378 Dt per day for the period December through February, 12,654 Dt per day for the months of November, March and April, and 8,093 Dt per day for the period May through October; (b) firm storage capacity under Eastern Shore's Rate Schedule GSS providing a peak day entitlement of 1,428 Dt and a total capacity of 70,665 Dt, which expires in 2013; (c) firm storage capacity under Eastern Shore's Rate Schedule LSS providing a peak day entitlement of 309 Dt and a total capacity of 15,500 Dt, which expires in 2013; and (d) firm storage capacity under Eastern Shore's Rate Schedule LGA providing a peak day entitlement of 569 Dt and a total capacity of 3,560 Dt, which expires in 2006. Maryland's firm transportation contracts with Eastern Shore also include Eastern Shore's provision of swing transportation service. This service includes: (a) firm transportation capacity of 969 Dt per day on Transco's pipeline system, retained by Eastern Shore, in addition to Maryland's Transco capacity referenced earlier and (b) an interruptible storage service under Transco's Rate Schedule ESS that supports a swing supply service provided under Transco's Rate Schedule FS.

Maryland currently has contracts for the purchase of firm natural gas supply with several suppliers. These supply contracts provide the availability of a maximum firm daily entitlement of 7,600 Dt and the supplies are transported

by Transco, Columbia, Gulf and Eastern Shore under Maryland's transportation contracts. The gas purchase contracts have various expiration dates and daily quantities may vary from day to day and month to month.

Florida The Florida division receives transportation service from Florida Gas Transmission Company ("FGT"), a major interstate pipeline. Chesapeake has contracts with FGT for: (a) daily firm transportation capacity of 27,579 Dt in November through April, 21,200 Dt in May through September, and 27,416 Dt in October under FGT's firm transportation service FTS-1 rate schedule; (b) daily firm transportation capacity of 5,100 Dt in May through October, and 1,600 in November through April under FGT's firm transportation service FTS-2 rate schedule. The firm transportation contract FTS-1 expires on August 1, 2010 with the Company retaining a right of first refusal on this capacity. The firm transportation contract FTS-2 expires on March 1, 2015. Chesapeake has requested and been approved for a turnback of all but 1,000 Dt per day year round of it's FTS-2 capacity. This turnback coincides with the in service dates of FGT's Phase 5 Project scheduled to be in service in the second quarter of 2002.

The Florida division currently receives its gas supply from various suppliers. If needed, some supply is bought on the spot market; however, the majority is bought under the terms of two firm supply contacts. The Company believes that the availability of gas supply to the Florida division is adequate under existing arrangements to meet customer's needs.

Eastern Shore. Eastern Shore has 2,888 thousand cubic feet ("Mcf") of firm transportation capacity under Rate Schedule FT under contract with Transco, which expires in 2005. Eastern Shore also has 7,046 Mcf of firm peak day entitlements and total storage capacity of 278,264 Mcf under Rate Schedules GSS, LSS and LGA, respectively, under contract with Transco. The GSS and LSS contracts expire in 2013 and the LGA contract expires in 2006.

Eastern Shore also has firm storage service under Rate Schedule FSS and firm storage transportation capacity under Rate Schedule SST under contract with Columbia. These contracts, which expire in 2004, provide for 1,073 Mcf of firm peak day entitlement and total storage capacity of 53,738 Mcf.

Eastern Shore has retained the firm transportation capacity and firm storage services described above in order to provide swing transportation service to those customers that requested such service.

Competition

See discussion on competition in Item 7 under the heading "Management's Discussion and Analysis — Competition."

Rates and Regulation

General. Chesapeake's natural gas distribution divisions are subject to regulation by the Delaware, Maryland and Florida Public Service Commissions with respect to various aspects of the Company's business, including the rates for sales to all of their customers in each jurisdiction. All of Chesapeake's firm distribution rates are subject to purchased gas adjustment clauses, which match revenues with gas costs and normally allow eventual full recovery of gas costs. Adjustments under these clauses require periodic filings and hearings with the relevant regulatory authority, but do not require a general rate proceeding.

Eastern Shore is subject to regulation by the FERC as an interstate pipeline. The FERC regulates the provision of service, terms and conditions of service, and the rates and fees Eastern Shore can charge for its transportation services. In addition, the FERC regulates the rates Eastern Shore is charged for transportation and transmission line capacity and services provided by Transco and Columbia.

Management monitors the rate of return in each jurisdiction in order to ensure the timely filing of rate adjustment applications.

Regulatory Proceedings

Delaware. In September 1998, Chesapeake's Delaware division filed an application with the Delaware Public Service Commission ("DPSC") to propose certain rate design changes to its existing margin sharing mechanism, which was approved in Chesapeake's last rate case.

The Company proposed certain rate design changes to its existing margin sharing mechanism in order to address the level of recovery of fixed distribution costs from the residential heating service customers and smaller commercial heating customers. The Company also proposed to change the existing margin sharing mechanism to take into consideration the appropriate treatment of margins achieved by the addition of new interruptible customers on the distribution system for which the Company makes additional capital investments

In March 1999, the Company, DPSC Staff and the Division of the Public Advocate settled all the issues in this matter and executed a proposed settlement agreement. The settlement allows the Company to increase or decrease the current margin sharing thresholds based on the actual level of recovery of fixed distribution costs from residential service heating and general service heating customers as compared to the level at which the base tariff rates were designed to recover in the last rate case. Per the settlement, the Company can implement an adjustment to the margin sharing thresholds if the weather is at least 6.5% warmer or colder than normal; however, the total increase or decrease in the amount of additional gross margin that the Company will retain or credit to the firm ratepayers cannot exceed a $500,000 cap.

Also under the agreements, the Company excludes the interruptible margins from the existing margin sharing mechanism for one specific interruptible customer on its distribution system for whom the Company made a capital investment to serve and currently has under a contract for interruptible service. Any additional margin retained for this customer will be included in the $500,000 cap mentioned above. The DPSC issued its final approval of the proposed settlement on May 25, 1999.

The Company earned or retained $500,000 of additional gross margin during 2000 as the Company met the requirements of the approved settlement in order to implement the approved mechanism. The mechanism had no impact on 2001 gross margins.

On August 2, 2001, the Delaware Division filed a general rate increase application. Interim rates, subject to refund went into effect on October 1, 2001. A settlement agreement was reached on February 20, 2002 that would result in an annual increase in rates of approximately $380,000. The agreement is expected to be submitted to the DPSC for final approval in the second quarter of 2002.

As a result of filing the general rate increase application on August 2, 2001, the Delaware Division's previously approved rate design changes in 1999 to its margin sharing mechanism terminated. The previous rate design changes that addressed the level of recovery of fixed distribution costs from its residential and smaller commercial customers in relation to its margin sharing mechanism and the actual weather experienced, ended upon the implementation of interim rates on October 1, 2001.

Maryland. During the 1999 Maryland General Assembly legislative session, taxation of electric and gas utilities changed by the passage of The Electric and Gas Utility Tax Reform Act ("Tax Act"). Effective January 1, 2000, the Tax Act altered utility taxation to account for the restructuring of the electric and gas industries by either repealing and/or amending the existing Public Service Company Franchise Tax, Corporate Income Tax and Property Tax. Chesapeake submitted a regulatory filing with the Maryland Public Service Commission ("MPSC") on December 30, 1999 to implement new tariff sheets necessary to incorporate the changes necessitated by the passage of the Tax Act. The tariff revisions (1) would implement new base tariff rates to reflect the estimated state corporate income tax liability; (2) assess the new per unit distribution franchise tax; and (3) repeal specified portions of the tariff that related to the former 2% gross receipts tax.

On January 12, 2000, the Maryland Public Service Commission ("MPSC") issued an order requiring the Company to file new tariff sheets, with an effective date of January 12, 2000, to increase its natural gas delivery service rates by $82,763 on an annual basis to recover the estimated impact of the state corporate income tax. Also as part of the MPSC order, the Company was directed to recover the new distribution franchise tax of $0.0042 per Ccf as a separate line item charge on the customers' bills. On January 14, 2000, the Company filed new natural gas tariff sheets in compliance with the MPSC order.

Florida. On August 8, 2001, the Florida Division filed a petition for approval of tariff modifications relating to the Competitive Rate Adjustment Cost Recovery Clause (the "Clause"). On October 1, 2001, the Florida Public Service Commission ("FPSC") issued an order approving the Clause. The Clause provides for the equitable distribution of surpluses or collection of shortfalls from both sales and transportation customers of any variances between our tariff rates and actual revenue derived from those customers who are provided service under our flexible rate tariff. All "market price sensitive" customers are excluded from the Clause.

On November 19, 2001, the Florida Division filed a petition with the Florida Public Service Commission for approval of certain transportation cost recovery factors. The Florida Public Service Commission approved the factors on January 24, 2002. In the Florida Division's rate case approved in November 2000, the FPSC approved the concept but not the specifics of the recovery methodology or the level of costs to be recovered. The methodology and factors approved provide for the recovery, over a two year period, of the Florida Division's actual and projected expenses incurred in the implementation of the transportation provisions of the tariff as approved in the November 2000 rate case.

On February 4, 2002, the FPSC approved a special contract with Suwannee American Limited Partnership. The agreement is for the construction of distribution facilities connecting Florida Gas Transmission's (FGT) pipeline to the Suwannee American cement plant in order to provide natural gas service. The FGT pipeline and all of the Florida Division's facilities are located on Suwannee America's property located in Suwannee County, Florida.

Eastern Shore. On December 9, 1999, Eastern Shore filed an application before the FERC requesting authorization for the following: (1) construct and operate approximately two miles of 16-inch mainline looping in Pennsylvania, (2) abandonment of one mile of 2-inch lateral in Delaware and Maryland and replacement of the segment with a 4-inch lateral, (3) construct and operate approximately ten miles of 6-inch mainline extension in Delaware, (4) construct and operate five delivery points on the new 6-inch mainline extension in Delaware, and (5) install certain minor auxiliary facilities at the existing Daleville compressor station in Pennsylvania. The purpose of the construction was to enable Eastern Shore to provide 7,065 Dekatherms ("Dts") of additional daily firm service capacity on Eastern Shore's system. The FERC approved Eastern Shore's application on April 28, 2000. The two miles of 16-inch mainline looping in Pennsylvania and the one mile of 4-inch lateral replacement in Delaware and Maryland were completed and placed in service during the fourth quarter of 2000. The ten miles of 6-inch mainline extension and associated delivery points in Delaware were completed and placed into service during the third quarter of 2001.

On January 11, 2001, Eastern Shore filed an application before the FERC requesting authorization for the following: (1) to construct and operate six miles of 16-inch pipeline looping in Pennsylvania and Maryland, (2) install 3,330 horsepower of additional capacity at the existing Daleville compressor station and (3) construct and operate a new delivery point in Chester County, Pennsylvania. The purpose of the construction was to enable Eastern Shore to provide 19,800 Dts of additional daily firm service capacity on its system. The expansion was completed and placed in service in the fourth quarter of 2001.

On January 25, 2002, Eastern Shore filed an application before FERC requesting authorization for the following: (1) Segment 1 – construct and operate 1.5 miles of 16-inch mainline looping in Pennsylvania on Eastern Shore's existing

right-of-way; and (2) Segment 2 – construct and operate 1.0 mile of 16-inch mainline looping in Maryland and Delaware on, or adjacent to, Eastern Shore's existing right-of-way. The purpose of the proposed construction is to enable Eastern Shore to provide 4,500 Dts of additional daily firm capacity on Eastern Shore's system. The proposed expansion is targeted for completion by November 1, 2002 and is estimated to cost approximately $2,654,000.

On October 31, 2001, Eastern Shore filed revised tariff sheets to reflect a general Natural Gas Act Section 4 rate increase before the FERC. The filing was made pursuant to the requirements of Article XII of the Stipulation and Agreement dated August 1, 1997. Eastern Shore's filing proposed a change in base rates for firm transportation services.

On November 30, 2001, the Commission issued an Order, which accepted and suspended the effectiveness of the rates until May 1, 2002 subject to refund and the outcome of a hearing. A pre-hearing conference was held on December 18, 2001 and the hearing was scheduled has been September 24, 2002.

Discovery related to the rate proceeding began in January 2002 with FERC Staff data requests. The outcome of the proceedings is uncertain.

(i) (b) Propane Distribution and Marketing
General

Chesapeake's propane distribution group consists of (1) Sharp Energy, Inc. ("Sharp Energy"), a wholly owned subsidiary of Chesapeake, (2) Sharpgas, Inc. ("Sharpgas"), a wholly owned subsidiary of Sharp Energy, and (3) Tri-County Gas Company, Inc. ("Tri-County"), a wholly owned subsidiary of Chesapeake. The propane marketing group consists of Xeron, Inc. ("Xeron"), a wholly owned subsidiary of Chesapeake.

The Company's consolidated propane distribution operation served approximately 34,600 propane customers on the Delmarva Peninsula and delivered approximately 22 million retail and wholesale gallons of propane during 2001.

In April 2000, Sharp Energy, Inc. started a propane distribution operation in West Palm Beach Florida doing business as Treasure Coast Propane.

In May 1998, Chesapeake acquired Xeron, a natural gas liquids trading company located in Houston, Texas. Xeron markets propane to large independent and petrochemical companies, resellers and southeastern retail propane companies in the United States. Additional information on Xeron's trading and wholesale marketing activities, market risks and the controls that limit and monitor the risks are included in Item 7 under the heading "Management's Discussion and Analysis — Cautionary Statement."

The propane distribution business is affected by many factors such as seasonality, the absence of price regulation and competition among local providers. The propane marketing business is affected by wholesale price volatility and the supply and demand for propane at a wholesale level.

Propane is a form of liquefied petroleum gas, which is typically extracted from natural gas or separated during the crude oil refining process. Although propane is a gas at normal pressures, it is easily compressed into liquid form for storage and transportation. Propane is a clean-burning fuel, gaining increased recognition for its environmental superiority, safety, efficiency, transportability and ease of use relative to alternative forms of energy. Propane is sold primarily in suburban and rural areas, which are not served by natural gas pipelines. Demand is typically much higher in the winter months and is significantly affected by seasonal variations, particularly the relative severity of winter temperatures, because of its use in residential and commercial heating.

Adequacy of Resources

The Company's propane distribution operations purchase propane primarily from suppliers, including major domestic oil companies and independent producers of gas liquids and oil. Supplies of propane from these and other sources are readily available for purchase by the Company. Supply contracts generally include minimum (not subject to a take-or-pay premiums) and maximum purchase provisions.

The Company's propane distribution operations use trucks and railroad cars to transport propane from refineries, natural gas processing plants or pipeline terminals to the Company's bulk storage facilities. From these facilities, propane is delivered in portable cylinders or by "bobtail" trucks, owned and operated by the Company, to tanks located at the customer's premises.

Xeron does not own physical storage facilities or equipment to transport propane; however, it contracts for storage and pipeline capacity to facilitate the sale of propane on a wholesale basis.

Competition

The Company's propane distribution operations compete with several other propane distributors in their service territories, primarily on the basis of service and price, emphasizing reliability of service and responsiveness. Competition is generally from local outlets of national distribution companies and local businesses because distributors located in close proximity to customers incur lower costs of providing service. Propane competes with electricity as an energy source, because it is typically less expensive than electricity, based on equivalent BTU value. Since natural gas has historically been less expensive than propane, propane is generally not distributed in geographic areas serviced by natural gas pipeline or distribution systems.

Xeron competes against various marketers, many of which have significantly greater resources and are able to obtain price or volumetric advantages over Xeron.

The Company's propane distribution and marketing activities are not subject to any federal or state pricing regulation. Transport operations are subject to regulations concerning the transportation of hazardous materials promulgated under the Federal Motor Carrier Safety Act, which is administered by the United States Department of Transportation and enforced by the various states in which such operations take place. Propane distribution operations are also subject to state safety regulations relating to "hook-up" and placement of propane tanks.

The Company's propane operations are subject to all operating hazards normally associated with the handling, storage and transportation of combustible liquids, such as the risk of personal injury and property damage caused by fire. The Company carries general liability insurance in the amount of $40,000,000 per occurrence, but there is no assurance that such insurance will be adequate.

(i) (c) Advanced Information Services

General

Chesapeake's advanced information services segment consists of BravePoint, Inc. ("BravePoint"), a wholly owned subsidiary of the Company. The Company changed its name from United Systems, Inc. in 2001 to reflect a change in service offerings.

BravePoint is based in Atlanta and primarily provides web-related products and services and support for users of PROGRESS™, a fourth generation computer language and Relational Database Management System. BravePoint offers consulting, training, placement, staffing, software development tools, web development and customer software development for its client base, which includes many large domestic and international corporations.

Competition

The advanced information services business faces significant competition from a number of larger competitors having substantially greater resources available to them than does the Company. In addition, changes in the advanced information services business are occurring rapidly, which could adversely impact the markets for the products and services offered by these businesses.

(i) (d) Other Subsidiaries

Skipjack, Inc. ("Skipjack"), Eastern Shore Real Estate, Inc. and Chesapeake Investment Company are wholly owned subsidiaries of Chesapeake Service Company. Skipjack and Eastern Shore Real Estate, Inc. own and lease office buildings Delaware and Maryland to affiliates of Chesapeake. Chesapeake Investment Company is a Delaware affiliated investment company.

The Company owns several businesses involved in water conditioning and treatment and bottled water services. Sam Shannahan Well Co., Inc. (dba Sharp Water, Inc.) and Sharp Water, Inc. are wholly owned subsidiaries of Chesapeake. EcoWater Systems of Michigan, Inc. (dba Douglas Water Conditioning), Carroll Water Systems, Inc., Absolute Water Care, Inc., Sharp Water of Florida, Inc. (dba Aquarius Water Systems), Sharp Water of Minnesota, Inc. (dba EcoWater Systems of Rochester) and Sharp Water of Idaho, Inc. (dba Intermountain Water) are wholly owned subsidiaries of Sharp Water, Inc.

The water operations serve central and southern Delaware; the eastern shore of Virginia; Maryland; Detroit, Michigan; Rochester, Minnesota; Boise, Idaho and parts of Florida. They face competition from a variety of national and local suppliers of water conditioning and treatment services and bottled water.

(ii) Seasonal Nature of Business

Revenues from the Company's residential and commercial natural gas sales and from its propane distribution activities are affected by seasonal variations, since the majority of these sales are to customers using the fuels for heating purposes. Revenues from these customers are accordingly affected by the mildness or severity of the heating season.

(iii) Capital Budget

A discussion of capital expenditures by business segment is included in Item 7 under the heading "Management Discussion and Analysis — Liquidity and Capital Resources."

(iv) Employees

As of December 31, 2001, Chesapeake had 580 employees, including 177 in natural gas, 128 in propane, 103 in advanced information services and 122 in water conditioning. The remaining 44 employees are considered general and administrative and include officers of the Company, treasury, accounting, information technology, human resources and other administrative personnel. The 2001 acquisitions added 51 employees.

(v) Executive Officers of the Registrant

Information pertaining to the executive officers of the Company is as follows:

Ralph J. Adkins (age 59) Mr. Adkins is Chairman of the Board of Directors of Chesapeake. He has served as Chairman since 1997. Prior to January 1, 1999, Mr. Adkins served as Chief Executive Officer, a position he had held since 1990. During his tenure with Chesapeake Mr. Adkins has also served as President and Chief Executive Officer, President and Chief Operating Officer, Executive Vice President, Senior Vice President, Vice President and Treasurer of Chesapeake. He has been a director of Chesapeake since 1989.

John R. Schimkaitis (age 54) Mr. Schimkaitis assumed the role of Chief Executive Officer on January 1, 1999. He has served as President since 1997. His present term expires on May 21, 2002. Prior to his new post, Mr. Schimkaitis

has also served as President and Chief Operating Officer, Executive Vice President and Chief Operating Officer, Senior Vice President and Chief Financial Officer, Vice President, Treasurer, Assistant Treasurer and Assistant Secretary of Chesapeake. He has been a director of Chesapeake since 1996.

Michael P. McMasters (age 43) Mr. McMasters is Vice President, Chief Financial Officer and Treasurer of Chesapeake Utilities Corporation. He has served as Vice President, Chief Financial Officer and Treasurer since December 1996. He previously served as Vice President of Eastern Shore, Director of Accounting and Rates and Controller. From 1992 to May 1994, Mr. McMasters was employed as Director of Operations Planning for Equitable Gas Company.

Stephen C. Thompson (age 41) Mr. Thompson is Vice President of the Natural Gas Operations as well as Vice President of Chesapeake Utilities Corporation. He has served as Vice President since May 1997. He has served as President, Vice President, Director of Gas Supply and Marketing, Superintendent of Eastern Shore and Regional Manager for the Florida distribution Operations.

William C. Boyles (age 44) Mr. Boyles is Vice President and Corporate Secretary of Chesapeake Utilities Corporation. Mr. Boyles has served as Corporate Secretary since 1998 and Vice President since 1997. He previously served as Director of Administrative Services, Director of Accounting and Finance, Treasurer, Assistant Treasurer and Treasury Department Manager. Prior to joining Chesapeake, he was employed as a Manager of Financial Analysis at Equitable Bank of Delaware and Group Controller at Irving Trust Company of New York.

ITEM 2. PROPERTIES

(a) General

The Company owns offices and operates facilities in the following locations: Pocomoke, Salisbury, Cambridge and Princess Anne, Maryland; Dover, Seaford, Laurel and Georgetown, Delaware; Winter Haven, Florida; and Fenton, Michigan. Chesapeake rents office space in Dover, Delaware; Jupiter, Lecanto, Venice and Stuart, Florida; Chincoteague and Belle Haven, Virginia; Easton, Salisbury, Westminster and Pocomoke, Maryland; Waterford, Michigan; Houston, Texas; Atlanta, Georgia; Boise and Moscow, Idaho; and Rochester, Minnesota. In general, the properties of the Company are adequate for the uses for which they are employed. Capacity and utilization of the Company's facilities can vary significantly due to the seasonal nature of the natural gas and propane distribution businesses.

(b) Natural Gas Distribution

Chesapeake owns over 645 miles of natural gas distribution mains (together with related service lines, meters and regulators) located in its Delaware and Maryland service areas and 547 miles of such mains (and related equipment) in its Central Florida service areas. Chesapeake also owns facilities in Delaware and Maryland for propane-air injection during periods of peak demand. Portions of the properties constituting Chesapeake's distribution system are encumbered pursuant to Chesapeake's First Mortgage Bonds.

(c) Natural Gas Transmission

Eastern Shore owns approximately 281 miles of transmission lines extending from Parkesburg, Pennsylvania to Salisbury, Maryland. Eastern Shore also owns three compressor stations located in Delaware City, Delaware; Daleville, Pennsylvania and Bridgeville, Delaware. The compressor stations are used to provide increased pressures required to meet demands on the system.

(d) Propane Distribution and Marketing

The company's Delmarva-based propane distribution operation own bulk propane storage facilities with an aggregate capacity of approximately 1.9 million gallons at 31 plant facilities in Delaware, Maryland and Virginia, located on real estate they either own or lease. The company's Florida-based propane distribution operation owns one bulk propane storage facility with a capacity of 30,000 gallons. Xeron does not own physical storage facilities or equipment to transport propane.

(e) Other

The Company owns and operates a resin regeneration facility in Salisbury, Maryland to serve exchange tank and metered water customers and a sales office in Fenton, Michigan. The other water operations operate out of rented facilities.

ITEM 3. LEGAL PROCEEDINGS

(a) General

The Company and its subsidiaries are involved in certain legal actions and claims arising in the normal course of business. The Company is also involved in certain legal and administrative proceedings before various governmental agencies concerning rates. In the opinion of management, the ultimate disposition of these proceedings will not have a material effect on the consolidated financial position of the Company.

(b) Environmental

Dover Gas Light Site

In 1984, the State of Delaware notified the Company that they had discovered contamination on a parcel of land it purchased in 1949 from Dover Gas Light Company, a predecessor gas company. The State also asserted that the Company was the responsible party for any clean-up and prospective environmental monitoring of the site. The Delaware Department of Natural Resources and Environmental Control ("DNREC") and Chesapeake conducted subsequent investigations and studies in 1984 and 1985. Soil and ground-water contamination associated with the operations of the former manufactured gas plant ("MGP"), the Dover Gas Light Company, were found on the property.

In February 1986, the State of Delaware entered into an agreement ("the 1986 Agreement") with Chesapeake whereby Chesapeake reimbursed the State for its costs to purchase an alternate property for construction of its Family Court Building and the State agreed to never construct on the property of the former MGP.

In October 1989, the Environmental Protection Agency ("EPA") listed the Dover Gas Light Site ("site") on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund"). EPA named both the State of Delaware and the Company as potentially responsible parties ("PRPs") for the site.

The EPA issued a clean-up remedy for the site through a Record of Decision ("ROD") dated August 16, 1994. The remedial action selected by the EPA in the ROD addressed the ground-water and soil. The ground-water remedy included a combination of hydraulic containment and natural attenuation. The soil remedy included complete excavation of the former MGP property. The ROD estimated the costs of the selected remediation of ground-water and soil at $2.7 million and $3.3 million, respectively.

In May 1995, EPA issued an order to the Company under section 106 of CERCLA (the "Order"), which required the Company to implement the remedy described in the ROD. The Order was also issued to General Public Utilities Corporation, Inc. ("GPU"), which both EPA and the Company believe is liable under CERCLA. Other PRPs, including the State of Delaware, were not ordered to perform the ROD. Although notifying EPA of its objections to the Order, the Company agreed to comply. GPU informed EPA that it did not intend to comply with the Order and to this date has not complied with the EPA Order.

The Company performed field studies and investigations during 1995 and 1996 to further characterize the extent of contamination at the site. In April 1997, the EPA issued a fact sheet stating that the EPA was considering a modification to the soil remedy that would take into account the site's future land use restrictions, which prohibited future development on the site. The EPA proposed a soil remediation that included some on-site excavation of contaminated soils and use of institutional controls; EPA estimated the cost of its proposed soil remedy at $5.7 million. Additionally, the fact sheet

acknowledged that the soil remedy described in the ROD would cost $10.5 million, instead of the $3.3 million estimated in the ROD, making the overall remedy cost $13.2 million ($10.5 million to perform the soil remedy and $2.7 million to perform the ground-water remediation).

In June 1997, the Company submitted a supplement to the focused feasibility study, which proposed an alternative soil remedy that would take into account the 1986 Agreement between Chesapeake and the State of Delaware restricting future development at the site. On December 16, 1997, the EPA issued a ROD Amendment to modify the soil remedy to include: (1) excavation and off-site thermal treatment of the contents of the former subsurface gas holders; (2) implementation of soil vapor extraction; (3) pavement of the parking lot and (4) use of institutional controls restricting future development on the site. The overall clean-up cost of the site was estimated at $4.2 million ($1.5 million for soil remediation and $2.7 million for ground-water remediation).

During the fourth quarter of 1998, the Company completed the field work associated with the remediation of the gas holders (a major component of the soil remediation). During the first quarter of 1999, the Company submitted reports to the EPA documenting the gas holder remedial activities and requesting closure of the gas holder remedial project. In April 1999, the EPA approved the closure of the gas holder remediation project, certified that all performance standards for the project were met and no additional work was needed for that phase of the soil remediation. The gas holder remediation project was completed at a cost of $550,000.

During 1999, the Company completed the construction of the soil vapor extraction ("SVE") system (another major component of the soil remediation) and continued with the ongoing operation of the system at a cost of $250,000. In 2000, the Company operated the SVE system and during the last quarter of 2000, the Company submitted to the EPA their finding along with a request to discontinue the SVE operations. The Company is awaiting a response from the EPA on their request. If discontinuation of the SVE procedures is approved, the company will initiate final construction of a parking lot and proceed with a ground-water remedial program.

The Company's independent consultants have prepared preliminary cost estimates of two potentially acceptable alternatives to complete the ground-water remediation activities at the site. The costs range from a low of $390,000 in capital and $37,000 per year of operating costs for 30 years for natural attenuation to a high of $3.3 million in capital and $1.0 million per year in operating costs to operate a pump-and-treat / ground-water containment system. The pump-and-treat / ground-water containment system is intended to contain the MGP contaminants to allow the ground-water outside of the containment area to naturally attenuate. The operating cost estimate for the containment system is dependent upon the actual ground-water quality and flow conditions. The Company continues to believe that a ground-water containment system is not necessary for the MGP contaminants, that there is insufficient information to design an overall ground-water containment program and that natural attenuation is the appropriate remedial action for the MGP wastes.

Because the Company cannot predict what the EPA will require for the overall ground-water program, a liability of $2.1 million was accrued at December 31, 1999 for the Dover site, as well as a regulatory asset for an equivalent amount. Of this amount, $1.5 million is for ground-water remediation and $600,000 is for the remaining soil remediation. The $1.5 million represents the low end of the ground-water remedy estimates described above.

In March 1995, the Company commenced litigation against the State of Delaware for contribution to the remedial costs being incurred to implement the ROD. In December of 1995, this case was dismissed without prejudice based on a settlement agreement between the parties (the "Settlement"). Under the Settlement, the State agreed to: reaffirm the 1986 Agreement with Chesapeake not to construct on the MGP property and support the Company's proposal to reduce the soil remedy for the site; contribute $600,000 toward the cost of implementing the ROD and reimburse the EPA for $400,000 in oversight costs. The Settlement is contingent upon a formal settlement agreement between EPA and the State of Delaware. Upon satisfaction of all conditions of the Settlement, the litigation will be dismissed with prejudice.

In June 1996, the Company initiated litigation against GPU for response costs incurred by Chesapeake and a declaratory judgment as to GPU's liability for future costs at the site. In August 1997, the United States Department of Justice also filed a lawsuit against GPU seeking a Court Order to require GPU to participate in the site clean-up, pay penalties for GPU's failure to comply with the EPA Order, pay EPA's past costs and a declaratory judgment as to GPU's liability for future costs at the site. In November 1998, Chesapeake's case was consolidated with the United States' case against GPU. A case management order scheduled the trial for February 2001. In early February 2001, the Company and GPU reached a tentative settlement agreement that is subject to approval of the courts.

In May 2001, Chesapeake, General Public Utilities Corporation, Inc. ("GPU"), the State of Delaware and the United States Environmental Protection Agency ("EPA") signed a settlement term sheet reflecting the agreement in principle to settle a lawsuit with respect to the Dover Gas Light site. The parties are in the process of memorializing the terms of the final agreement in two consent decrees. The consent decrees will then be published for public comment and submitted to a federal judge for approval.

If the agreement in principle receives final approval, Chesapeake will:

- Design and construct a parking lot on the site and dismantle the soil vapor extraction system that had been erected at the site.
- Receive a net payment of $1.15 million from other parties to the agreement. These proceeds will be passed on to Chesapeake's firm customers, in accordance with the environmental rate rider.
- Receive a release from liability and covenant not to sue from the EPA and the State of Delaware. This will relieve Chesapeake from liability for future remediation at the site, unless previously unknown conditions are discovered at the site, or information previously unknown to EPA is received that indicates the remedial action related to the prior manufactured gas plant is not sufficiently protective. These contingencies are standard, and are required by the United States in all liability settlements.

At December 31, 2001, the Company had accrued $2.1 million of costs associated with the remediation of the Dover site and had recorded an associated regulatory asset for the same amount. Of that amount, $1.5 million was for estimated ground-water remediation and $600,000 was for remaining soil remediation. The $1.5 million represented the low end of the ground-water remediation estimates prepared by an independent consultant and was used because the Company could not, at that time, predict the remedy the EPA might require.

Upon receiving final court approval of the consent decrees, Chesapeake will reduce both the accrued environmental liability and the associated environmental regulatory asset to the amount required to complete its obligations (primarily the final demobilization of the remedial system and final design and construction of the parking lot).

Through December 31, 2001, the Company has incurred approximately $8.9 million in costs relating to environmental testing and remedial action studies at the Dover site. In 1990, the Company entered into settlement agreements with a number of insurance companies resulting in proceeds to fund actual environmental costs incurred over a five to seven-year period. In 1995, the Delaware Public Service Commission, authorized recovery of all unrecovered environmental costs incurred by a means of a rider (supplement) to base rates, applicable to all firm service customers. The costs, exclusive of carrying costs, would be recovered through a five-year amortization offset by the associated deferred tax benefit. The deferred tax benefit is the carrying cost savings associated with the timing of the deduction of environmental costs for tax purposes as compared to financial reporting purposes. Each year an environmental surcharge rate is calculated to become effective December 1. The surcharge or rider rate is based on the amortization of expenditures through September of the filing year plus amortization of expenses from previous years. The rider makes it unnecessary to file a rate case every year to recover expenses incurred. Through December 31, 2001, the unamortized balance and amount of environmental costs not included in the rider; effective January 1, 2002 were $2,878,000 and $67,000,

respectively. With the rider mechanism established, it is management's opinion that these costs and any future cost, net of the deferred income tax benefit, will be recoverable in rates.

Salisbury Town Gas Light Site

In cooperation with the Maryland Department of the Environment ("MDE"), the Company completed assessment of the Salisbury manufactured gas plant site, determining that there was localized ground-water contamination. During 1996, the Company completed construction and began Air Sparging and Soil-Vapor Extraction remediation procedures. Chesapeake has been reporting the remediation and monitoring results to the MDE on an ongoing basis since 1996. The Company has requested approval from the MDE to shutdown the remediation procedures currently in place. The MDE approved a temporary shutdown and is evaluating a complete shutdown of the system.

The estimated cost of the remaining remediation is approximately $100,000 for the final year's operating costs and capital costs to shut down the remediation process at the end of the year. Based on these estimated costs, the Company adjusted both its liability and related regulatory asset to $100,000 on December 31, 2001, to cover the Company's projected remediation costs for this site. Through December 31, 2001, the Company has incurred approximately $2.8 million for remedial actions and environmental studies. Of this amount, approximately $1,062,000 of incurred costs have not been recovered through insurance proceeds or received ratemaking treatment. Chesapeake will apply for the recovery of these and any future costs in the next base rate filing with the Maryland Public Service Commission.

Winter Haven Coal Gas Site

Chesapeake has been working with the Florida Department of Environmental Protection ("FDEP") in assessing a coal gas site in Winter Haven, Florida. In May 1996, the Company filed an Air Sparging and Soil Vapor Extraction Pilot Study Work Plan for the Winter Haven site with the FDEP. The Work Plan described the Company's proposal to undertake an Air Sparging and Soil Vapor Extraction ("AS/SVE") pilot study to evaluate the site. After discussions with the FDEP, the Company filed a modified AS/SVE Pilot Study Work Plan, the description of the scope of work to complete the site assessment activities and a report describing a limited sediment investigation performed in 1997. In December 1998, the FDEP approved the AS/SVE Pilot Study Work Plan, which the Company completed during the third quarter of 1999. Chesapeake has reported the results of the Work Plan to the FDEP for further discussion and review. In February 2001, the company filed a remedial action plan ("RAP") with the FDEP to address the contamination of the subsurface soil and groundwater in the northern portion of the site. The FDEP approved the RAP on May 4, 2001.

The Company has accrued a liability of $1,000,000 as of December 31, 2001 for the Florida site. The Company has recovered all environmental costs incurred to date, approximately $890,000, through rates charged to customers. Additionally, the Florida Public Service Commission has allowed the Company to continue to recover amounts for future environmental costs that might be incurred. At December 31, 2001, Chesapeake had received $523,000 related to future costs, which are expected to be incurred. There is a regulatory asset recorded at December 31, 2001 of $477,000, which represents the estimated future liability for clean up ($1,000,000), net of the amount received through rates in excess of the costs incurred to date ($523,000).

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

(a) Common Stock Price Ranges, Common Stock Dividends and Shareholder Information:

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "CPK." The high, low and closing prices of Chesapeake's Common Stock and dividends declared per share for each calendar quarter during the years 2001 and 2000 were as follows:

	Quarter Ended	High	Low	Close	Dividends Declared Per Share
2001					
	March 31	**$19.1250**	**$17.3750**	**$18.2000**	**$0.2700**
	June 30	**19.5500**	**17.6000**	**18.8800**	**0.2700**
	September 30	**19.2000**	**17.7500**	**18.3500**	**0.2750**
	December 31	**19.9000**	**18.1000**	**19.8000**	**0.2750**
2000					
	March 31	$18.8750	$16.2500	$16.9375	$0.2600
	June 30	18.5000	16.3750	17.7500	0.2600
	September 30	18.1250	16.6250	18.1250	0.2700
	December 31	18.7500	16.7500	18.6250	0.2700

Indentures pertaining to the long-term debt of the Company and its subsidiaries each contain a restriction that the Company cannot, until the retirement of its Series I Bonds, pay any dividends after December 31, 1988 which exceed the sum of $2,135,188, plus consolidated net income recognized on or after January 1, 1989. As of December 31, 2001, the amounts available for future dividends permitted by the Series I covenant are $19.9 million.

At December 31, 2001, there were approximately 2,171 shareholders of record of the Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

10-Year Financial & Statistical Information

For the Years Ended December 31,	2001	2000	1999
Operating (in thousands of dollars)			
Revenues			
Natural gas distribution and transmission	$108,122	$99,750	$75,592
Propane	198,124	216,273	138,437
Advanced informations systems	14,104	12,353	13,531
Other	9,971	7,037	2,640
Total revenues	$330,321	$335,413	$230,200
Gross margin			
Natural gas distribution and transmission	$37,374	$35,322	$32,339
Propane	14,444	15,995	14,099
Advanced informations systems	6,719	5,656	6,575
Other	5,429	3,611	1,025
Total gross margin	$63,966	$60,584	$54,038
Operating income before taxes			
Natural gas distribution and transmission	$14,267	$12,365	$10,300
Propane	1,100	2,319	2,627
Advanced informations systems	517	336	1,470
Other	(339)	1,006	452
Total operating income before taxes	$15,545	$16,026	$14,849
Net income from continuing operations [2]	$6,722	$7,489	$8,271
Assets (in thousands of dollars)			
Gross property, plant and equipment	$216,903	$192,940	$172,088
Net property, plant and equipment	$150,256	$131,466	$117,663
Total assets	$210,054	$210,700	$166,989
Capital expenditures	$29,186	$23,056	$25,917
Capitalization (in thousands of dollars)			
Stockholders' equity	$66,850	$63,972	$60,164
Long-term debt, net of current maturities	$48,408	$50,921	$33,777
Total capital	$115,258	$114,893	$93,941
Current portion of long-term debt	$2,686	$2,665	$2,665
Short-term debt	$42,100	$25,400	$23,000
Total capitalization and short-term financing	$160,044	$142,958	$119,606

[1] 1994 and prior years have not been restated to include the business combinations with Tri-County Gas Company, Inc , Tolan Water Service and Xeron, Inc.

[2] For the year 1992, the Company had net income from discontinued operations included in earnings of $73,500.

1998	1997	1996	1995	1994 [1]	1993 [1]	1992 [1]
$68,745	$88,105	$90,093	$79,105	$71,716	$64,380	$55,877
102,063	125,159	161,812	147,596	20,684	16,908	16,489
10,331	7,636	6,903	7,307	2,288	1,706	1,122
1,781	1,589	1,294	1,277	3,884	2,879	2,447
$182,920	$222,489	$260,102	$235,285	$98,572	$85,873	$75,935
$29,516	$30,064	$29,612	$29,094	$23,943	$22,833	$22,055
12,071	12,492	17,579	13,235	9,359	8,579	7,954
5,316	3,856	2,503	1,823	1,281	955	628
901	737	915	1,016	1,472	1,078	942
$47,804	$47,149	$50,609	$45,168	$36,055	$33,445	$31,579
$8,814	$9,219	$9,625	$10,811	$7,715	$7,207	$7,083
971	1,158	2,669	2,128	2,288	1,588	1,440
1,316	1,046	1,017	587	(246)	136	70
504	671	672	508	0	(631)	(705)
$11,605	$12,094	$13,983	$14,034	$9,757	$8,300	$7,888
$5,303	$5,868	$7,782	$7,696	$4,460	$3,972	$3,549
$152,991	$144,251	$134,001	$120,746	$110,023	$100,330	$91,039
$104,266	$99,879	$94,014	$85,055	$75,313	$69,794	$64,596
$145,234	$145,719	$155,787	$130,998	$108,271	$100,775	$89,214
$12,650	$13,471	$15,399	$12,887	$10,653	$10,064	$6,720
$56,356	$53,656	$50,700	$45,587	$37,063	$34,817	$33,105
$37,597	$38,226	$28,984	$31,619	$24,329	$25,682	$25,668
$93,953	$91,882	$79,684	$77,206	$61,392	$60,499	$58,773
$520	$1,051	$3,526	$1,787	$1,348	$1,286	$5,026
$11,600	$7,600	$12,735	$5,400	$8,000	$8,900	$0
$106,073	$100,533	$95,945	$84,393	$70,740	$70,685	$63,799

10-Year Financial & Statistical Information

For the Years Ended December 31,	2001	2000	1999
Common Stock Data and Ratios			
Basic earnings per share [2] [3] [4]	$1 25	$1 43	$1 61
Return on average equity	10 3%	12.1%	14.2%
Common equity / total capital	58.0%	55.7%	64.0%
Common equity / total capital and short-term financing	41.8%	44 7%	50.3%
Book value per share	$12 32	$12.08	$11 60
Market price:			
High	$19 900	$18.875	$19.813
Low	$17 375	$16 250	$14 875
Close	$19 800	$18.625	$18 375
Average number of shares outstanding	5,367,433	5,249,439	5,144,449
Shares outstanding end of year	5,424,962	5,297,443	5,186,546
Registered common shareholders	2,171	2,166	2,212
Cash dividends per share	$1 09	$1 06	$1 02
Dividend yield (annualized)	5.6%	5.8%	5.7%
Payout ratio	87.2%	74.1%	63.4%
Additional Data			
Customers			
Natural gas distribution and transmission	42,741	40,854	39,029
Propane distribution	34,632	35,345	35,267
Volumes			
Natural gas deliveries (in MMCF)	27,264	30,830	27,383
Propane distribution (in thousands of gallons)	23,080	28,469	27,788
Heating degree-days (Delmarva Peninsula)	4,368	4,730	4,082
Propane bulk storage capacity (in thousands of gallons)	1,958	1,928	1,926
Total employees	580	542	522

(1) 1994 and prior years have not been restated to include the business combinations with Tri-County Gas Company, Inc., Tolan Water Service and Xeron, Inc.

(2) Earnings per share amounts shown prior to 1995 represent primary and fully diluted earnings per share.

(3) 1993 excludes earnings per share of $0 02 for the cumulative effect of change in accounting principle

(4) 1992 excludes earnings per share of $0 02 for discontinued operations.

1998	1997	1996	1995	1994 [1]	1993 [1]	1992 [1]
$1 05	$1 18	$1 58	$1 59	$1.23	$1 12	$1 02
9.6%	11.3%	16 2%	18 6%	12.4%	11 2%	10 5%
60.0%	58 4%	63.6%	59 0%	60 4%	57 5%	56 3%
53 1%	53 4%	52.8%	54.0%	52.4%	49 3%	51 9%
$11.06	$10 72	$10 26	$9 38	$10.15	$9.76	$9 50
$20.500	$21.750	$18 000	$15.500	$15 250	$17 500	$15.000
$16.500	$16.250	$15 125	$12.250	$12.375	$13 000	$11.500
$18.313	$20.500	$16 875	$14.625	$12 750	$15 375	$13.000
5,060,328	4,972,086	4,912,136	4,836,430	3,628,056	3,551,932	3,477,244
5,093,788	5,004,078	4,939,515	4,860,588	3,653,182	3,575,068	3,487,778
2,271	2,178	2,213	2,098	1,721	1,743	1,674
$1 00	$0.97	$0.93	$0.90	$0.88	$0 86	$0.86
5.5%	4 7%	5.5%	6.2%	6.9%	5.6%	6 6%
95.2%	82.2%	58.9%	56.6%	71 5%	76.8%	84 3%
37,128	35,797	34,713	33,530	32,346	31,270	30,407
34,113	33,123	31,961	31,115	22,180	21,622	21,132
21,400	23,297	24,835	29,260	22,728	19,444	17,344
25,979	26,682	29,975	26,184	18,395	17,250	17,125
3,704	4,430	4,717	4,594	4,398	4,705	4,645
1,890	1,866	1,860	1,818	1,230	1,140	1,140
456	397	338	335	320	326	317

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

Business Description

Chesapeake Utilities Corporation is a diversified utility company engaged in natural gas distribution and transmission, propane distribution and wholesale marketing, advanced information services and other related businesses.

Liquidity and Capital Resources

Chesapeake's capital requirements reflect the capital-intensive nature of its business and are principally attributable to the construction program and the retirement of outstanding debt. The Company relies on cash generated from operations and short-term borrowing to meet normal working capital requirements and to temporarily finance capital expenditures. During 2001, net cash provided by operating activities was $15.5 million, cash used by investing activities was $29.2 million and cash provided by financing activities was $10.3 million. Based upon anticipated cash requirements in 2002, Chesapeake expects to refinance its short-term debt through the issuance of long-term debt. The timing of such an issuance will depend on the nature of the securities involved, the Company's financial needs and current market and economic conditions.

The Board of Directors has authorized the Company to borrow up to $55.0 million of short-term debt from various banks and trust companies. As of December 31, 2001, Chesapeake had three unsecured bank lines of credit with two financial institutions, totaling $65.0 million, for short-term cash needs to meet seasonal working capital requirements and to temporarily fund portions of its capital expenditures. One of the bank lines is committed. The other two lines are subject to the banks' availability of funds. The outstanding balances of short-term borrowing at December 31, 2001 and 2000 were $42.1 million and $25.4 million, respectively. In 2001, Chesapeake used funds provided by operations, short-term borrowing and cash on hand to fund capital expenditures. In 2000, Chesapeake used funds provided from operations and the issuance of long-term debt to fund capital expenditures and the increase in working capital associated with high gas costs. At December 31, 2001, the Company had an under-recovered purchased gas cost balance of $6.5 million, a decrease of $829,000 from the $7.3 million balance in 2000.

During 2001, 2000 and 1999, capital expenditures were approximately $29.2, $21.8 and $25.1 million, respectively. Capital expenditures increased in 2001 primarily as a result of Eastern Shore Natural Gas expenditures, totaling $16.2 million, related to system expansion. Natural gas distribution also spent approximately $7.7 million for expansion of facilities to serve new customers and for improvements of facilities. Chesapeake has budgeted $16.8 million for capital expenditures during 2002. This amount includes $11.8 million for natural gas distribution and transmission, $2.3 million for propane distribution and marketing, $200,000 for advanced information services and $2.5 million for other operations. The natural gas distribution and transmission expenditures are for expansion and improvement of facilities. The propane expenditures are to support customer growth and for the replacement of equipment. The advanced information services expenditures are for computer hardware, software and related equipment. Expenditures for other operations include expenditures to support customer growth and replace equipment for water operations and general plant, computer software and hardware. Financing for the 2002 capital expenditure program is expected to be provided from short-term borrowing, cash provided by operating activities and the expected issuance of long-term debt. The capital expenditure program is subject to continuous review and modification. Actual capital requirements may vary from the above estimates due to a number of factors including acquisition opportunities, changing economic conditions, customer growth in existing areas, regulation, availability of capital and new growth opportunities.

Chesapeake has budgeted $846,000 for environmental-related expenditures during 2002 and expects to incur additional expenditures in future years, a portion of which may need to be financed through external sources (see Note L to the Consolidated Financial Statements). Management does not expect such financing to have a material adverse effect on the financial position or capital resources of the Company.

Capital Structure

As of December 31, 2001, common equity represented 58.0 percent of total permanent capitalization, compared to 55.7 percent in 2000. Including short-term borrowing and the current portion of long-term debt, the equity component of the Company's capitalization would have been 41.8 percent and 44.7 percent, respectively. Chesapeake remains committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access the capital markets when required. This commitment, along with adequate and timely rate relief for the Company's regulated operations, is intended to ensure that Chesapeake will be able to attract capital from outside sources at a reasonable cost. The Company believes that the achievement of these objectives will provide benefits to customers and creditors, as well as to the Company's investors.

Financing Activities

During the past two years, the Company has utilized debt and equity financing for the purpose of funding capital expenditures and acquisitions.

In May 2001, Chesapeake issued a note payable of $300,000 at 8.5 percent, due April 6, 2006, in conjunction with a real estate purchase. In December 2000, Chesapeake completed a private placement of $20.0 million of 7.83 percent Senior Notes due January 1, 2015. The Company used the proceeds to repay short-term borrowing.

Chesapeake repaid approximately $2.7 million of long-term debt in both 2001 and 2000. Chesapeake issued common stock in connection with its Automatic Dividend Reinvestment and Stock Purchase Plan, in the amounts of 43,101 shares in 2001, 41,056 shares in 2000 and 36,319 shares in 1999.

Results of Operations

Net income for 2001 was $6.7 million compared to $7.5 million for 2000 and $8.3 million for 1999. The reduction in earnings in 2001 was due to declines in the propane segment and other businesses' contribution to earnings, partially offset by increases in natural gas and advanced information services. Propane margins declined due to a 13 percent drop in sales because of warmer temperatures, a reduction in sales to poultry customers and the continuation of competitive pressures in some markets the Company serves on the Delmarva Peninsula. Heating degree-days on the Delmarva Peninsula indicate that temperatures were 8 percent warmer than 2000 and 1 percent warmer than normal. The margin decrease was partially offset by savings in operating expenses resulting from cost containment measures implemented during 2001. The decrease in other operations is due principally to a drop in pre-tax operating income for the water businesses resulting from increased overhead due to the development of a management infrastructure and expansion to new locations. The natural gas segment improved over 2000 as a result of enhanced margins in the transmission segment and from a rate increase in Florida and reductions in operating expenses in Delaware and Maryland. Interest expense increased $770,000 due to an increase in long-term debt, partially offset by lower short-term interest rates.

Pre-Tax Operating Income Summary (in thousands)

For the Years Ended December 31,	2001	2000	Increase (decrease)	2000	1999	Increase (decrease)
Business Segment:						
Natural gas distribution & transmission	$ **14,267**	$ 12,365	$ 1,902	$ 12,365	$ 10,300	$ 2,065
Propane	**1,100**	2,319	(1,219)	2,319	2,627	(308)
Advanced information services	**518**	336	182	336	1,470	(1,134)
Other & Eliminations	**(339)**	1,006	(1,345)	1,006	452	554
Total Pre-tax Operating Income	$ **15,546**	$ 16,026	$ (480)	$ 16,026	$ 14,849	$ 1,177

The reduction in net income in 2000 compared to 1999 is primarily due to a one-time after tax gain of $863,000 on the sale of the Company's investment in Florida Public Utilities Company recorded in the fourth quarter of 1999 (see Note E to the Consolidated Financial Statements). Exclusive of this gain, net income for 2000 increased by $81,000; however, earnings per share decreased $0.01 per share. This increase in net income for 2000 reflected improved pre-tax operating income for the natural gas business segment, offset by a reduction in contribution from the advanced information services

and the propane gas segments. The natural gas segment benefited from cooler temperatures, a 5 percent growth in customers and increased transportation services. In terms of heating degree-days, temperatures for the year were 16 percent cooler than the prior year and 4 percent cooler than normal. The reduced contribution from the advanced information services segment reflects lower revenues from their traditional lines of business in 2000. The propane gas segment also benefited from cooler weather and an increase in marketing margins; however, higher operating expenses offset these increases. Also contributing to the increase in net income for 2000 was the Company's other business operations, which included a full year of operations from the water business acquisitions that occurred in late 1999 and early 2000.

The $863,000 after-tax gain on the sale of the Company's investment in Florida Public Utilities Company is shown in non-operating income on the Company's financial statements.

Natural Gas Distribution and Transmission

Pre-tax operating income increased $1.9 million from 2000 to 2001. The increase in pre-tax operating income was due to increases contributed by the Company's Florida operations and the natural gas transmission subsidiary. The Florida unit's increase was driven by higher margins due to a rate increase implemented in August 2000 and increased margins from the marketing operation, partially due to the expansion of transportation services in Florida. In addition, the transmission subsidiary's margins increased by approximately $1.1 million due to an increase in firm transportation services provided to its customers. The transmission subsidiary increased its capacity to provide firm transportation services by expanding its system. While the margins in Delaware and Maryland were down by more than $700,000 primarily due to weather, cost reduction measures implemented in 2001 enabled the Company to maintain earnings in these two units. The Delaware Division also implemented an interim rate increase, subject to refund, on October 1, 2001. Included in the Company's operating expense reduction is a one-time credit adjustment of approximately $280,000 to establish a regulatory asset for other post retirement benefits which are being collected through the Company's rates on a "pay-as-you-go" basis in Delaware.

Natural Gas Distribution and Transmission (in thousands)

For the Years Ended December 31,	2001	2000	Increase (decrease)	2000	1999	Increase (decrease)
Revenue	**$ 108,234**	$ 99,870	$ 8,364	$ 99,870	$ 75,653	$ 24,217
Cost of gas	**70,749**	64,429	6,320	64,429	43,253	21,176
Gross margin	**37,485**	35,441	2,044	35,441	32,400	3,041
Operations & maintenance	**15,008**	15,527	(519)	15,527	14,927	600
Depreciation & amortization	**5,667**	5,253	414	5,253	4,803	450
Other taxes	**2,543**	2,296	247	2,296	2,370	(74)
Pre-tax operating expenses	**23,218**	23,076	142	23,076	22,100	976
Total Pre-tax Operating Income	**$ 14,267**	$ 12,365	$ 1,902	$ 12,365	$ 10,300	$ 2,065

Pre-tax operating income increased $2.1 million from 1999 to 2000. The increase was the result of a $3.0 million increase in gross margin offset by a $1.0 million increase in operating expenses. The principal factors responsible for this increase in gross margin were:

- increased levels of firm transportation services;
- customer growth of 5 percent, primarily residential and commercial;
- greater deliveries due to temperatures in 2000 which were 16 percent cooler than 1999;
- an adjustment to the Delaware operation's margin sharing mechanism to compensate for warmer temperatures in late 1999 and early 2000; and
- interim rates in the Florida operation beginning in August 2000, with final rate increase taking effect in December 2000.

The customer growth and cooler temperatures resulted in a 14 percent increase in volumes delivered to residential and commercial customers.

Under normal temperatures and customer usage, the Company estimates that 5 percent customer growth would generate an additional margin of $850,000 on an annual basis.

Propane

Pre-tax operating income declined from $2.3 million in 2000 to $1.1 million in 2001. The Delmarva propane operations pre-tax operating income decreased $1.2 million. In addition, the propane start-ups in Florida lost approximately $293,000 on a pre-tax basis in 2001. The Company's wholesale marketing subsidiary continued to contribute earnings above the Company's target expectations in 2001.

Propane (in thousands)

For the Years Ended December 31,	2001	2000	Increase (decrease)	2000	1999	Increase (decrease)
Revenue	**$ 198,124**	$ 216,273	$ (18,149)	$ 216,273	$ 138,437	$ 77,836
Cost of sales	**183,680**	200,278	(16,598)	200,278	124,338	75,940
Gross margin	**14,444**	15,995	(1,551)	15,995	14,099	1,896
Operations & maintenance	**11,181**	11,608	(427)	11,608	9,623	1,985
Depreciation & amortization	**1,437**	1,429	8	1,429	1,202	227
Other taxes	**726**	639	87	639	647	(8)
Pre-tax operating expenses	**13,344**	13,676	(332)	13,676	11,472	2,204
Total Pre-tax Operating Income	**$ 1,100**	$ 2,319	$ (1,219)	$ 2,319	$ 2,627	$ (308)

During 2001, the Company's gross margins on the Delmarva Peninsula declined by approximately $1.75 million due to a 13 percent decline in sales volumes. Cost containment measures taken during the second quarter of 2001 generated a $575,000 reduction in operations and maintenance expenses. However, this was not enough to offset the reduced margins on the lower sales volumes. The decline in margins was due to warmer temperatures, a reduction in sales to poultry customers and the continuation of competitive pressures in some of the markets the Company serves on the Peninsula. The decline in sales to the poultry customers comprised 32 percent of the decline in margins. The decreases in volume have been exacerbated by the decline in wholesale prices over the course of the year. Declines in wholesale prices, which are generally good for the long-term, negatively impact the Company in the short-term by devaluing its inventories and fixed price supply contracts. During 2001, the Company wrote down inventory totaling $850,000 due to wholesale price declines. Increased competition has also affected volumes sold. Over the last couple of years, several independent dealers have entered the propane business with pricing strategies designed to acquire market share. The Company's position as the largest or second largest distributor in several of the markets that it serves makes it particularly vulnerable to these tactics.

In 2000, the Company started up three propane distribution operations in Florida. The operations contributed $238,000 to gross margin in 2001.

Although the margins contributed by the marketing operation declined by four percent in 2001, they were still well above the earnings target established by the Company.

Pre-tax operating income for 2000 was $2.3 million compared to $2.6 million for 1999. This decline of $308,000 was the result of an increase in operating expenses of $2.2 million offset by an increase of $1.9 million in gross margin. Operating expenses were higher due to several initiatives the Company undertook to enhance long-term customer service. The initiatives included the opening of a customer service/marketing office in a location convenient to retail shopping, an increase in merchandise sales and service activities and the extension of customer service hours. The Company expects that the Florida propane start-ups may take up to three years to achieve profitability. Gross margin was higher in 2000

due primarily to an increase of 102 percent in wholesale margins earned Additionally, gallons delivered by the distribution operations increased by 2 percent.

Advanced Information Services

The advanced information services segment provides consulting, custom programming, training, development tools and website development for national and international clients. The segment's contribution to pre-tax operating income increased $182,000 over the depressed levels in 2000, to $518,000 in 2001. The $1.7 million increase in revenue was partially offset by the increase in the cost of providing the services and the cost of the marketing program implemented during the first half of the year. Marketing costs during 2001 were approximately $400,000 over the normal levels the Company expects. WebProEX sales and related consulting contributed approximately $450,000 of the increase in revenues during 2001.

Advanced Information Services (in thousands)

For the Years Ended December 31,	2001	2000	Increase (decrease)	2000	1999	Increase (decrease)
Revenue	$ **14,104**	$ 12,390	$ 1,714	$ 12,390	$ 13,531	$ (1,141)
Cost of sales	**7,384**	6,696	688	6,696	6,956	(260)
Gross margin	**6,720**	5,694	1,026	5,694	6,575	(881)
Operations & maintenance	**5,361**	4,576	785	4,576	4,353	223
Depreciation & amortization	**256**	280	(24)	280	268	12
Other taxes	**585**	502	83	502	484	18
Pre-tax operating expenses	**6,202**	5,358	844	5,358	5,105	253
Total Pre-tax Operating Income	$ **518**	$ 336	$ 182	$ 336	$ 1,470	$ (1,134)

The advanced information services segment's contribution to consolidated pre-tax operating income for 2000 decreased $1.1 million or 77 percent from 1999. The decline is directly related to a reduction in revenues earned from the traditional information technology business. This reduction occurred primarily due to many clients implementing their year 2000 contingency plans in 1999, then significantly reducing their information technology expenditures in 2000. This reduction was somewhat offset by continued growth in revenue earned on web-related products and services. Operating expenses increased 6 percent, primarily in the areas of compensation, marketing and uncollectible accounts.

Other Operations

The pre-tax operating loss for the Company's other operations is primarily due to the decline in the performance of the water businesses.

Other Operations (in thousands)

For the Years Ended December 31,	2001	2000	Increase (decrease)	2000	1999	Increase (decrease)
Revenue	$ **9,859**	$ 6,881	$ 2,978	$ 6,881	$ 2,579	$ 4,302
Cost of sales	**4,542**	3,426	1,116	3,426	1,616	1,810
Gross margin	**5,317**	3,455	1,862	3,455	963	2,492
Operations & maintenance	**4,284**	2,021	2,263	2,021	161	1,860
Depreciation & amortization	**974**	180	794	180	251	(71)
Other taxes	**398**	248	150	248	99	149
Pre-tax operating expenses	**5,656**	2,449	3,207	2,449	511	1,938
Total Pre-tax Operating (Loss) Income	$ **(339)**	$ 1,006	$ (1,345)	$ 1,006	$ 452	$ 554

The water businesses contribution to pre-tax operating income declined by $915,000 in 2001. Water's contribution declined from $190,000 in 2000 to a loss of $725,000 in 2001. Approximately $574,000 of the decline is due to the cost of establishing a corporate infrastructure for the group. In addition, the Michigan unit's performance declined by $218,000 (net of corporate charges). The decrease resulted from a decline in sales and from an increase in depreciation, primarily related to changing out rental equipment. Finally, the two companies acquired in Florida during 2001

experienced a pre-tax loss of $177,000 (net of corporate charges) during 2001. Transition costs were incurred after the acquisition, primarily the relocation of offices and related expenses.

Overall, other operations' margins increased by approximately $1.9 million or 54 percent. However, other operations' pre-tax costs increased by $3.2 million or 131 percent.

Income Taxes

Operating income taxes were lower in 2001 than 2000, due to lower operating income and higher interest expense, partially offset by the utilization of a higher effective tax rate in 2001. In 2001, the Company accrued income taxes at a federal tax rate of 35 percent as opposed to a 34 percent rate in 2000.

Operating income taxes were higher in 2000 compared to 1999 due to higher pre-tax operating income and a higher composite income tax rate. The higher composite tax rate in 2000 is the net effect of adjusting the 1999 accumulated deferred tax balances to a 35 percent federal rate, partially offset by a reduction in the tax accrual of $238,000 due to a reassessment of known tax exposures.

Other Income

Non-operating income net of tax was $483,000, $361,000 and $1,066,000 for the years 2001, 2000 and 1999, respectively. In 1999, the Company recognized a pre-tax gain of $1,415,000, or $863,000 after tax, on the sale of Chesapeake's investment in Florida Public Utilities Company (see Note E to the Consolidated Financial Statements). Exclusive of this transaction, non-operating income net of tax for 1999 was $203,000.

Interest Expense

Interest expense for 2001 increased due to a higher level of long-term debt, partially offset by lower interest rates on short-term borrowing. Interest expense increased in 2000 due to a higher average short-term borrowing balance of $24.2 million in 2000 compared to $9.9 million in 1999. Also contributing to the increase in interest expense is a higher short-term borrowing rate of 6.89 percent in 2000, up from 5.51 percent in 1999.

Regulatory Activities

The Company's natural gas distribution operations are subject to regulation by the Delaware, Maryland and Florida Public Service Commissions while the natural gas transmission operation is subject to regulation by the Federal Energy Regulatory Commission ("FERC").

On August 2, 2001, the Delaware Division filed a general rate increase application. Interim rates, subject to refund, went into effect on October 1, 2001. A proposed settlement agreement was reached that would result in an annual increase in rates of approximately $380,000. The proposed settlement is expected to be submitted to the Delaware Public Service Commission for approval in the second quarter of 2002.

In 1999, the Company requested and received approval from the Delaware Public Service Commission to annually adjust its interruptible margin sharing mechanism to address the level of recovery of fixed distribution costs from residential and small commercial heating customers. The annual period runs from August 1 to July 31. During 2000, the weather for the period ending August 31, 2000 was warmer than the threshold, resulting in a reduction in margin sharing. This reduction resulted in a $417,000 increase in margin for 2000.

As a result of filing the general rate increase application on August 2, 2001, the Delaware Division's previously approved rate design changes in 1999 to its margin sharing mechanism terminated. The previous rate design changes that addressed the level of recovery of fixed distribution costs from its residential and smaller commercial customers in relation to its margin sharing mechanism and the actual weather experienced, ended upon the implementation of interim rates on October 1, 2001. There was no impact on margins in 2001 due to this mechanism.

On October 31, 2001, Eastern Shore filed a rate change with the FERC pursuant to the requirements of Article XII of the Stipulation and Agreement dated August 1, 1997. Eastern Shore's filing proposed a change in base rates for firm transportation services. At this time, the outcome of the rate filing is uncertain.

On November 30, 2001, the Commission issued an order, which accepted and suspended the effectiveness of the rates until May 1, 2002 subject to refund and the outcome of a hearing. A pre-hearing conference was held on December 18, 2001 and the hearing was scheduled for September 24, 2002. Discovery related to the rate proceeding began in January 2002 with FERC Staff data requests. The outcome of the proceedings is uncertain.

In January 2000, the Company filed a request for approval of a rate increase with the Florida Public Service Commission. Interim rates subject to refund, went into effect in August 2000. In November 2000, an order was issued approving the rate increase, which became effective in early December 2000.

During the 1999 Maryland General Assembly legislative session, taxation of electric and gas utilities was changed by the passage of The Electric and Gas Utility Tax Reform Act ("Tax Act"). Effective January 1, 2000, the Tax Act altered utility taxation to account for the restructuring of the electric and gas industries by either repealing and/or amending the existing Public Service Company Franchise Tax, Corporate Income Tax and Property Tax. Prior to this Tax Act, the State of Maryland allowed utilities a credit to their income tax liability for Maryland gross receipts taxes paid during the year. The modification eliminates the gross receipts tax credit. The Company requested and received approval from the Maryland Public Service Commission to increase its natural gas delivery service rates by $83,000 on an annual basis to recover the estimated impact of the Tax Act.

Environmental Matters

The Company continues to work with federal and state environmental agencies to assess the environmental impact and explore corrective action at three former gas manufacturing plant sites (see Note L to the Consolidated Financial Statements). The Company believes that future costs associated with these sites will be recoverable in rates or through sharing arrangements with, or contributions by, other responsible parties.

Market Risk

Market risk represents the potential loss arising from adverse changes in market rates and prices. Long-term debt is subject to potential losses based on the change in interest rates. The Company's long-term debt consists of first mortgage bonds, senior notes and convertible debentures (see Note H to the Consolidated Financial Statements for annual maturities of consolidated long-term debt). All of Chesapeake's long-term debt is fixed-rate debt and was not entered into for trading purposes. The carrying value of the Company's long-term debt was $51.1 million at December 31, 2001 as compared to a fair value of $56.9 million, based mainly on current market prices or discounted cash flows using current rates for similar issues with similar terms and remaining maturities. The Company is exposed to changes in interest rates as a result of financing through its issuance of fixed-rate long-term debt. The Company evaluates whether to refinance existing debt or permanently finance existing short-term borrowing based in part on the fluctuation in interest rates.

The Company's propane distribution business is exposed to market risk as a result of propane storage activities and entering into fixed price contracts for supply. The Company can store up to approximately 4 million gallons of propane during the winter season to meet its customers' peak requirements and to serve metered customers. Decreases in the wholesale price of propane may cause the value of stored propane to decline.

The propane marketing operation is a party to natural gas liquids ("NGL") forward contracts, primarily propane contracts, with various third parties. These contracts require that the propane marketing operation purchase or sell NGL at a fixed price at fixed future dates. At expiration, the contracts are settled by the delivery of NGL to the Company or the counter party. The wholesale propane marketing operation also enters into futures contracts that are traded on the New

York Mercantile Exchange. In certain cases, the futures contracts are settled by the payment of a net amount equal to the difference between the current market price of the futures contract and the original contract price.

The forward and futures contracts are entered into for trading and wholesale marketing purposes. The propane marketing operation is subject to commodity price risk on its open positions to the extent that market prices for NGL deviate from fixed contract settlement amounts. Market risk associated with the trading of futures and forward contracts are monitored daily for compliance with Chesapeake's Risk Management Policy, which includes volumetric limits for open positions. To manage exposures to changing market prices, open positions are marked up or down to market prices and reviewed by oversight officials on a daily basis. Additionally, the Risk Management Committee reviews periodic reports on market and credit risk, approves any exceptions to the Risk Management Policy (within the limits established by the Board of Directors) and authorizes the use of any new types of contracts. Quantitative information on the forward and futures contracts at December 31, 2001 and 2000 is shown below.

At December 31, 2001	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	11,877,600	$0.3275 - $0.3375	$0.3876
Purchase	9,660,000	$0.3275 - $0.3375	$0.4032
Futures Contracts			
Sale	840,000	$0.3275 - $0.3300	$0.3325

Estimated market prices and weighted average contract prices are in dollars per gallon
All contracts expire in 2002.

At December 31, 2000			
Forward Contracts			
Sale	33,007,800	$0.6800 - $1.2000	$0.7869
Purchase	33,419,400	$0.5625 - $1.0200	$0.7597
Futures Contracts			
Sale	2,814,000	$0 6800 - $0.8700	$0.7714
Purchase	1,260,000	$0.5625 - $0.7700	$0.5397

Estimated market prices and weighted average contract prices are in dollars per gallon.
All contracts expired in 2001.

The Company's natural gas distribution operations have entered into agreements with natural gas suppliers to purchase natural gas for resale to their customers. Purchases under these contracts are considered "normal purchases and sales" under Statement of Financial Accounting Standards ("SFAS") No. 133 and are not marked-to-market.

Competition

The Company's natural gas operations compete with other forms of energy including electricity, oil and propane. The principal competitive factors are price, and to a lesser extent, accessibility. The Company's natural gas distribution operations have several large volume industrial customers that have the capacity to use fuel oil as an alternative to natural gas. When oil prices decline, these interruptible customers convert to oil to satisfy their fuel requirements. Lower levels in interruptible sales occur when oil prices are lower relative to the price of natural gas. Oil prices, as well as the prices of electricity and other fuels are subject to fluctuation for a variety of reasons; therefore, future competitive conditions are not predictable. To address this uncertainty, the Company uses flexible pricing arrangements on both the supply and sales side of its business to maximize sales volumes. As a result of the transmission business' conversion to open access, this business has shifted from providing competitive sales service to providing transportation and contract storage services.

The Company's natural gas distribution operations located in Maryland, Delaware and Florida began offering transportation services to certain industrial customers during 1998, 1997 and 1994, respectively. In 2001, the Florida operations extended transportation service to commercial customers. With transportation services now available on the Company's distribution systems, the Company is competing with third party suppliers to sell gas to industrial customers.

The Company's competitors include the interstate transmission company if the distribution customer is located close enough to the transmission company's pipeline to make a connection economically feasible. The customers at risk are usually large volume commercial and industrial customers with the financial resources and capability to bypass the distribution operations in this manner. In certain situations, the distribution operations may adjust services and rates for these customers to retain their business. The Company expects to continue to expand the availability of transportation services to additional classes of distribution customers in the future. The Company established a natural gas brokering and supply operation in Florida in 1994 to compete for customers eligible for transportation services.

The Company's propane distribution operations compete with several other propane distributors in their service territories, primarily on the basis of service and price. Competitors include several large national propane distribution companies, as well as an increasing number of local suppliers. Some of these competitors have pricing strategies designed to acquire market share.

The Company's advanced information services segment faces competition from a number of competitors, some of which have greater resources available to them than those of the Company. This segment competes on the basis of technological expertise, reputation and price.

The water businesses face competition from a variety of national and local suppliers of water conditioning and treatment services and bottled water.

Inflation

Inflation affects the cost of labor, products and services required for operation, maintenance and capital improvements. While the impact of inflation has remained low in recent years, natural gas and propane prices are subject to rapid fluctuations. Fluctuations in natural gas prices are passed on to customers through the gas cost recovery mechanism in the Company's tariffs. To help cope with the effects of inflation on its capital investments and returns, the Company seeks rate relief from regulatory commissions for regulated operations while monitoring the returns of its unregulated business operations. To compensate for fluctuations in propane gas prices, Chesapeake adjusts its propane selling prices to the extent allowed by the market.

Recent Pronouncements

Effective January 1, 2001, the Company adopted Financial Accounting Standards Board ("FASB") SFAS No. 133 as amended by SFAS No. 137 and 138, which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Their adoption did not have a material impact on the Company's financial position or results of operations.

On June 30, 2001, the FASB issued SFAS Nos. 141, 142 and 143. SFAS No. 141, "Business Combinations," eliminates the pooling-of-interest method of accounting for business combinations and requires the use of the purchase method. In addition, the reassessment of intangible assets to determine whether they are appropriately classified either separately or within goodwill is required. SFAS No. 141 is effective for business combinations initiated after June 30, 2001. The Company adopted SFAS No. 141 on July 1, 2001 with no material impact on net income.

SFAS No. 142, "Goodwill and Other Intangible Assets," eliminates the amortization of goodwill and other acquired intangible assets with indefinite economic useful lives. SFAS No. 142 requires an annual impairment test of goodwill and other intangible assets that are not subject to amortization. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001; however, amortization of goodwill for acquisitions completed after June 30, 2001 was prohibited. The impact of adopting SFAS No. 142 has not yet been determined, but could be significant if future results of the new water businesses do not meet expectations.

SFAS No. 143, "Accounting for Asset Retirement Obligations," provides guidance on the accounting for obligations associated with the retirement of long-lived assets. SFAS No. 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The potential impact of adopting SFAS No. 143 has not yet been determined.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," replaces SFAS No. 121. The statement develops one accounting model for long-lived assets to be disposed of by sale and addresses significant implementation issues. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The effect of implementing SFAS No. 144 has not yet been determined.

Cautionary Statement

Chesapeake has made statements in this report that are considered to be forward-looking statements. These statements are not matters of historical fact. Sometimes they contain words such as "believes," "expects," "intends," "plans," "will," or "may," and other similar words of a predictive nature. These statements relate to matters such as customer growth, changes in revenues or margins, capital expenditures, environmental remediation costs, regulatory approvals, market risks associated with the Company's propane marketing operation, competition and other matters. It is important to understand that these forward-looking statements are not guarantees, but are subject to certain risks and uncertainties and other important factors that could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things:

- the temperature sensitivity of the natural gas and propane businesses;
- the wholesale prices of natural gas and propane and market movements in these prices;
- the effects of competition on the Company's unregulated and regulated businesses;
- the effect of changes in federal, state or local regulatory requirements, including deregulation;
- the ability of the Company's new and planned facilities and acquisitions to generate expected revenues; and
- the Company's ability to obtain the rate relief and cost recovery requested from utility regulators and the timing of the requested regulatory actions.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Information concerning quantitative and qualitative disclosure about market risk is included in Item 7 under the heading "Management's Discussion and Analysis — Market Risk."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders of Chesapeake Utilities Corporation

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) of this Form 10-K present fairly, in all material respects, the financial position of Chesapeake Utilities Corporation and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14(a)(2) of this Form 10-K presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. The financial statements and the financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP
Philadelphia, Pennsylvania
February 15, 2002

Consolidated Statements of Income

For the Years Ended December 31,	2001	2000	1999
Operating Revenues	**$330,320,958**	$335,412,844	$230,200,335
Cost of Sales	**266,355,278**	274,828,371	176,162,693
Gross Margin	**63,965,680**	60,584,473	54,037,642
Operating Expenses			
Operations	**34,055,855**	31,862,975	27,543,188
Maintenance	**1,778,760**	1,868,260	1,521,302
Depreciation and amortization	**8,333,482**	7,142,611	6,523,669
Other taxes	**4,251,825**	3,684,656	3,600,345
Income taxes	**4,027,543**	4,387,925	4,174,896
Total operating expenses	**52,447,465**	48,946,427	43,363,400
Operating Income	**11,518,215**	11,638,046	10,674,242
Other Income			
Gain on sale of investment	**0**	0	1,415,343
Interest income	**456,240**	220,462	99,660
Other income	**251,491**	248,748	60,799
Income taxes	**(224,731)**	(108,667)	(509,351)
Total other income	**483,000**	360,543	1,066,451
Income Before Interest Charges	**12,001,215**	11,998,589	11,740,693
Interest Charges			
Interest on long-term debt	**3,998,264**	2,628,781	2,793,712
Interest on short-term borrowing	**1,215,528**	1,699,402	551,937
Amortization of debt expense	**101,183**	111,122	117,966
Other	**(35,297)**	70,083	6,092
Total interest charges	**5,279,678**	4,509,388	3,469,707
Net Income	**$6,721,537**	$7,489,201	$8,270,986
Earnings Per Share of Common Stock:			
Basic	**$1.25**	$1.43	$1.61
Diluted	**$1.24**	$1.40	$1.57

See accompanying notes

Consolidated Balance Sheets

Assets

At December 31,	2001	2000
Property, Plant and Equipment		
Natural gas distribution and transmission	**$170,254,892**	$149,121,319
Propane	**32,877,317**	31,630,208
Advanced information services	**1,521,144**	1,699,968
Other plant	**12,249,442**	10,488,581
Total property, plant and equipment	**216,902,795**	192,940,076
Less: Accumulated depreciation and amortization	**(66,646,944)**	(61,473,757)
Net property, plant and equipment	**150,255,851**	131,466,319
Investments, at fair market value	**517,901**	616,293
Current Assets		
Cash and cash equivalents	**1,188,335**	4,606,316
Accounts receivable (less allowance for uncollectibles of $621,516 and $549,961 in 2001 and 2000, respectively)	**21,266,309**	37,941,172
Materials and supplies, at average cost	**1,106,995**	1,566,126
Merchandise inventory, at average cost	**1,610,786**	1,234,072
Propane inventory, at average cost	**2,518,871**	4,379,599
Storage gas prepayments	**4,326,416**	3,500,323
Underrecovered purchased gas costs	**6,519,754**	5,388,725
Income taxes receivable	**675,504**	1,159,761
Prepaid expenses and other current assets	**1,932,246**	2,015,276
Total current assets	**41,145,216**	61,791,370
Deferred Charges and Other Assets		
Environmental regulatory assets	**2,677,010**	2,910,000
Environmental expenditures	**3,189,156**	3,626,475
Underrecovered purchased gas costs	**0**	1,959,562
Other deferred charges and intangible assets	**12,342,923**	8,329,484
Total deferred charges and other assets	**18,209,089**	16,825,521
Total Assets	**$210,128,057**	$210,699,503

See accompanying notes

Capitalization and Liabilities

At December 31,	2001	2000
Capitalization		
Stockholders' equity		
Common stock	**$2,640,060**	$2,577,992
Additional paid-in capital	**29,653,992**	27,672,005
Retained earnings	**34,555,560**	33,721,747
Total stockholders' equity	**66,849,612**	63,971,744
Long-term debt, net of current maturities	**48,408,596**	50,920,818
Total capitalization	**115,258,208**	114,892,562
Current Liabilities		
Current maturities of long-term debt	**2,686,145**	2,665,091
Short-term borrowing	**42,100,000**	25,400,000
Accounts payable	**14,551,621**	33,654,718
Refunds payable to customers	**971,575**	1,015,128
Accrued interest	**1,758,401**	595,175
Dividends payable	**1,491,832**	1,429,945
Deferred income taxes payable	**848,271**	985,349
Other accrued liabilities	**5,327,457**	5,674,419
Total current liabilities	**69,735,302**	71,419,825
Deferred Credits and Other Liabilities		
Deferred income taxes	**15,732,842**	15,086,951
Deferred investment tax credits	**602,357**	657,172
Environmental liability	**3,199,733**	2,910,000
Accrued pension costs	**1,595,650**	1,625,128
Other liabilities	**4,003,965**	4,107,865
Total deferred credits and other liabilities	**25,134,547**	24,387,116
Commitments and Contingencies		
(Notes L and M)		
Total Capitalization and Liabilities	**$210,128,057**	$210,699,503

See accompanying notes

Consolidated Statements of Cash Flows

For the Years Ended December 31,	2001	2000	1999
Operating Activities			
Net Income	**$6,721,537**	$7,489,201	$8,270,986
Adjustments to reconcile net income to net operating cash			
Depreciation and amortization	**9,094,068**	8,044,315	7,509,841
Investment tax credit adjustments, net	**(54,815)**	(54,815)	(54,815)
Deferred income taxes, net	**508,813**	2,922,815	385,103
Mark-to-market adjustments	**906,551**	(689,032)	65,076
Employee benefits	**(29,478)**	80,165	8,659
Employee compensation	**223,255**	217,000	298,756
Other, net	**(27,897)**	(816,049)	212,711
Changes in assets and liabilities			
Accounts receivable, net	**16,549,829**	(16,745,492)	(6,814,506)
Inventories, storage gas and materials	**1,117,052**	(3,307,421)	(1,704,543)
Prepaid expenses and other current assets	**83,031**	217,126	(11,850)
Other deferred charges	**(1,725,090)**	95,657	1,120,355
Accounts payable, net	**(19,103,098)**	16,789,601	5,794,475
Refunds payable to customers	**(43,553)**	235,620	143,355
Over (under) recovered purchased gas costs	**828,533**	(6,111,373)	315,351
Other current liabilities	**401,860**	(688)	1,058,357
Net cash provided by operating activities	**15,450,598**	8,366,630	16,597,311
Investing Activities			
Property, plant and equipment expenditures	**(29,185,807)**	(21,821,005)	(25,128,669)
Sale of investments	**0**	0	2,189,312
Net cash used by investing activities	**(29,185,807)**	(21,821,005)	(22,939,357)
Financing Activities			
Common stock dividends, net of amounts reinvested of $609,793, $520,712 & $456,962 in 2001, 2000 & 1999, respectively	**(5,216,044)**	(5,022,313)	(4,774,338)
Issuance of stock			
Dividend Reinvestment Plan optional cash	**191,765**	197,797	187,369
Retirement Savings Plan	**1,023,919**	916,159	816,306
Net borrowing under line of credit agreements	**16,700,000**	2,400,000	11,400,000
Proceeds from issuance of long-term debt, net	**300,000**	19,887,194	0
Repayment of long-term debt	**(2,682,412)**	(2,675,319)	(1,528,202)
Net cash provided by financing activities	**10,317,228**	15,703,518	6,101,135
Net (Decrease) Increase in Cash and Cash Equivalents	**(3,417,981)**	2,249,143	(240,911)
Cash and Cash Equivalents at Beginning of Year	**4,606,316**	2,357,173	2,598,084
Cash and Cash Equivalents at End of Year	**$1,188,335**	$4,606,316	$2,357,173
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	**$4,128,477**	$4,410,230	$3,409,070
Cash paid for income taxes	**$3,601,400**	$3,212,080	$4,413,155

See accompanying notes

Consolidated Statements of Stockholders' Equity

For the Years Ended December 31,	2001	2000	1999
Common Stock			
Balance — beginning of year	**$2,577,992**	$2,524,018	$2,479,019
Dividend Reinvestment Plan	**20,977**	19,983	17,530
Retirement Savings Plan	**26,730**	25,353	22,489
Conversion of debentures	**3,117**	5,173	4,201
Performance shares and options exercised	**11,244**	3,465	779
Balance — end of year	**2,640,060**	2,577,992	2,524,018
Additional Paid-in Capital			
Balance — beginning of year	**27,672,005**	25,782,824	24,192,188
Dividend Reinvestment Plan	**780,582**	698,526	626,801
Retirement Savings Plan	**997,187**	890,806	793,817
Conversion of debentures	**105,639**	175,599	142,597
Performance shares and options exercised	**98,579**	124,250	27,421
Balance — end of year	**29,653,992**	27,672,005	25,782,824
Retained Earnings			
Balance — beginning of year	**33,721,747**	31,857,732	28,892,384
Net income	**6,721,537**	7,489,201	8,270,986
Cash dividends [1]	**(5,887,724)**	(5,625,186)	(5,305,638)
Balance — end of year	**34,555,560**	33,721,747	31,857,732
Unearned Compensation			
Balance — beginning of year	**0**	0	(71,041)
Amortization of prior years' awards	**0**	0	71,041
Balance — end of year	**0**	0	0
Total Stockholders' Equity	**$66,849,612**	$63,971,744	$60,164,574

[1] Cash dividends per share for 2001, 2000 and 1999 were $1.09, $1.06 and $1.02, respectively.

See accompanying notes

Consolidated Statements of Income Taxes

For the Years Ended December 31,	2001	2000	1999
Current Income Tax Expense			
Federal	**$3,194,125**	$1,598,184	$3,948,746
State	**602,548**	264,294	807,214
Investment tax credit adjustments, net	**(54,815)**	(54,815)	(54,815)
Total current income tax expense	**3,741,858**	1,807,663	4,701,145
Deferred Income Tax Expense [1]			
Property, plant and equipment	**769,264**	1,071,852	734,765
Deferred gas costs	**(236,971)**	2,404,994	(124,576)
Pensions and other employee benefits	**(71,089)**	(115,615)	(153,697)
Unbilled revenue	**303,136**	(736,700)	(45,290)
Contributions in aid of construction	**0**	0	(160,971)
Environmental expenditures	**(142,362)**	879	97,480
Other [2]	**(111,562)**	63,519	(364,609)
Total deferred income tax expense	**510,416**	2,688,929	(16,898)
Total Income Tax Expense	**$4,252,274**	$4,496,592	$4,684,247
Reconciliation of Effective Income Tax Rates			
Federal income tax expense [3]	**$3,840,832**	$4,075,170	$4,404,779
State income taxes, net of federal benefit	**492,850**	489,831	553,444
Other [2]	**(81,408)**	(68,409)	(273,976)
Total Income Tax Expense	**$4,252,274**	$4,496,592	$4,684,247
Effective income tax rate	**38.7%**	37.5%	36.2%

At December 31,	2001	2000
Deferred Income Taxes		
Deferred income tax liabilities:		
Property, plant and equipment	**$15,730,682**	$15,088,379
Environmental costs	**1,286,226**	1,478,259
Deferred gas costs	**2,607,170**	2,844,140
Other	**935,104**	736,255
Total deferred income tax liabilities	**20,559,182**	20,147,033
Deferred income tax assets:		
Unbilled revenue	**1,487,428**	1,790,563
Pension and other employee benefits	**1,464,878**	1,382,628
Self insurance	**535,141**	502,416
Other	**490,622**	399,126
Total deferred income tax assets	**3,978,069**	4,074,733
Deferred Income Taxes Per Consolidated Balance Sheet	**$16,581,113**	$16,072,300

(1) Includes $102,000, $298,000 and $39,000 of deferred state income taxes for the years 2001, 2000 and 1999, respectively

(2) 1999 includes a $238,000 tax benefit associated with the adjustment to deferred income taxes for known tax exposures, offset by a $78,000 charge to adjust deferred income taxes to the 35% federal income tax rate.

(3) Federal income taxes for 2001 were recorded at 35% The years 2000 and 1999 were recorded at 34%

See accompanying notes

A. Summary of Accounting Policies

Nature of Business

Chesapeake Utilities Corporation ("Chesapeake" or "the Company") is engaged in natural gas distribution to approximately 42,700 customers located in central and southern Delaware, Maryland's Eastern Shore and Florida. The Company's natural gas transmission subsidiary operates a pipeline from various points in Pennsylvania and northern Delaware to the Company's Delaware and Maryland distribution divisions, as well as other utility and industrial customers in Pennsylvania, Delaware and the Eastern Shore of Maryland. The Company's propane distribution and marketing segment provides distribution service to approximately 34,600 customers in central and southern Delaware, the Eastern Shore of Maryland, Florida and Virginia, and markets propane to a number of large independent oil and petrochemical companies, resellers and propane distribution companies in the southeastern United States. The advanced information services segment provides consulting, custom programming, training, development tools and website development for national and international clients.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. Investments in all entities in which the Company owns more than 20 percent but less than 50 percent, are accounted for by the equity method. The Company does not have any ownership interests in special purpose entities. All significant intercompany transactions have been eliminated in consolidation.

System of Accounts

The natural gas distribution divisions of the Company located in Delaware, Maryland and Florida are subject to regulation by their respective Public Service Commissions with respect to their rates for service, maintenance of their accounting records and various other matters. Eastern Shore Natural Gas Company ("Eastern Shore") is an open access pipeline and is subject to regulation by the Federal Energy Regulatory Commission ("FERC"). The Company's financial statements are prepared in accordance with generally accepted accounting principles, which give appropriate recognition to the ratemaking and accounting practices and policies of the various commissions. The propane distribution and marketing and advanced information services segments are not subject to regulation with respect to rates or maintenance of accounting records.

Property, Plant, Equipment and Depreciation

Utility property is stated at original cost while the assets of the non-utility segments are recorded at cost. The costs of repairs and minor replacements are charged to income as incurred and the costs of major renewals and betterments are capitalized. Upon retirement or disposition of utility property, the recorded cost of removal, net of salvage value, is charged to accumulated depreciation. Upon retirement or disposition of non-utility property, the gain or loss, net of salvage value, is charged to income. The provision for depreciation is computed using the straight-line method at rates that amortize the unrecovered cost of depreciable property over the estimated useful life of the asset. Depreciation and amortization expenses are provided at an annual rate for each segment. Average rates for the past three years were 4 percent for natural gas distribution and transmission, 5 percent for propane distribution and marketing, 18 percent for advanced information services and 9 percent for general plant.

Cash and Cash Equivalents

The Company's policy is to invest cash in excess of operating requirements in overnight income producing accounts. Such amounts are stated at cost, which approximates market value. Investments with an original maturity of three months or less are considered cash equivalents.

Inventories

The Company uses the average cost method to value inventory. If the market prices drop below average cost, inventory balances are adjusted to market values.

Environmental Regulatory Assets

Environmental regulatory assets represent amounts related to environmental liabilities for which cash expenditures have not been made. As expenditures are incurred, the environmental liability is reduced along with the environmental regulatory asset. These amounts, awaiting ratemaking treatment, are recorded to either environmental expenditures as an asset or accumulated depreciation as cost of removal. Environmental expenditures are amortized and/or recovered through a rider to base rates in accordance with the ratemaking treatment granted in each jurisdiction.

Other Deferred Charges and Intangible Assets

Other deferred charges include discount, premium and issuance costs associated with long-term debt and rate case expenses. Debt costs are deferred, then amortized over the original lives of the respective debt issuances. Gains and losses on the reacquisition of debt are amortized over the remaining lives of the original issuances. Rate case expenses are deferred, then amortized over periods approved by the applicable regulatory authorities.

Intangible assets are associated with the acquisition of non-utility companies. Except for goodwill on acquisitions that were completed after June 30, 2001, intangible assets are amortized on a straight-line basis over a weighted average period of 21 years. Goodwill related to acquisitions completed after June 30, 2001 is not amortized, in accordance with SFAS No. 142. Gross intangibles and the net unamortized balance at December 31, 2001 were $8.7 million and $7.7 million, respectively. Gross intangibles and the net unamortized balance at December 31, 2000 were $7.7 million and $5.9 million, respectively.

Income Taxes and Investment Tax Credit Adjustments

The Company files a consolidated federal income tax return. Income tax expense allocated to the Company's subsidiaries is based upon their respective taxable incomes and tax credits.

Deferred tax assets and liabilities are recorded for the tax effect of temporary differences between the financial statements and tax bases of assets and liabilities and are measured using current effective income tax rates. The portions of the Company's deferred tax liabilities applicable to utility operations, which have not been reflected in current service rates, represent income taxes recoverable through future rates. Investment tax credits on utility property have been deferred and are allocated to income ratably over the lives of the subject property.

Financial Instruments

Xeron, the Company's propane marketing operation, engages in trading activities using forward and futures contracts which have been accounted for using the mark-to-market method of accounting. Under mark-to-market accounting, the Company's trading contracts are recorded at fair value, net of future servicing costs, and changes in market price are recognized as gains or losses in the period of change. The resulting unrealized gains and losses are recorded as assets or liabilities, respectively. At December 31, 2001, there was an unrealized loss of $75,000. At December 31, 2000, there was an unrealized gain of $831,000. Trading liabilities are recorded in other accrued liabilities. Trading assets are recorded in prepaid expenses and other current assets.

The Company's natural gas distribution operations have entered into agreements with natural gas suppliers to purchase natural gas for resale to their customers. Purchases under these contracts are considered "normal purchases and sales" under SFAS No. 133 and are not marked-to-market.

Operating Revenues

Revenues for the natural gas distribution operations of the Company are based on rates approved by the various public service commissions. The natural gas transmission operation revenues are based on rates approved by FERC. Customers' base rates may not be changed without formal approval by these commissions. With the exception of the Company's Florida division, the Company recognizes revenues from meters read on a monthly cycle basis. This practice results in unbilled and unrecorded revenue from the cycle date through the end of the month. The Florida division recognizes revenues based on services rendered and records an amount for gas delivered but not yet billed.

Chesapeake's natural gas distribution operations each have a gas cost recovery mechanism that provides for the adjustment of rates charged to customers as gas costs fluctuate. These amounts are collected or refunded through adjustments to rates in subsequent periods.

The Company charges flexible rates to the natural gas distribution's industrial interruptible customers to make them competitive with alternative types of fuel. Based on pricing, these customers can choose natural gas or alternative types of supply. Neither the Company nor the customer is contractually obligated to deliver or receive natural gas.

The propane distribution operation records revenues on either an "as delivered" or a "metered" basis depending on the customer type. The propane marketing operation calculates revenues daily on a mark-to-market basis for open contracts.

The advanced information services and other segments record revenue in the period the products are delivered and/or services are rendered.

Earnings Per Share

The calculations of both basic and diluted earnings per share are presented below. In 2001, the effect of assuming the exercise of the outstanding stock options would have been anti-dilutive; therefore it was not included in the calculations.

For the Years Ended December 31,		2001		2000		1999
Calculation of Basic Earnings Per Share:						
Net Income	$	**6,721,537**	$	7,489,201	$	8,270,986
Weighted Average Shares Outstanding		**5,367,433**		5,249,439		5,144,449
Basic Earnings Per Share	**$**	**1.25**	$	1.43	$	1 61
Calculation of Diluted Earnings Per Share:						
Reconciliation of Numerator:						
Net Income — basic	$	**6,721,537**	$	7,489,201	$	8,270,986
Effect of 8.25% Convertible debentures		**171,725**		179,701		188,982
Adjusted numerator — diluted	$	**6,893,262**	$	7,668,902	$	8,459,968
Reconcilation of Denominator:						
Weighted Shares Outstanding — basic		**5,367,433**		5,249,439		5,144,449
Effect of 8 25% Convertible debentures		**201,125**		209,893		220,732
Effect of stock options		-		11,484		11,875
Effect of stock warrants		**849**		-		-
Adjusted denominator — diluted		**5,569,407**		5,470,816		5,377,056
Diluted Earnings per Share	$	**1.24**	$	1 40	$	1.57

Certain Risks and Uncertainties

The financial statements are prepared in conformity with generally accepted accounting principles that require management to make estimates in measuring assets and liabilities and related revenues and expenses (see Notes L and M to the Consolidated Financial Statements for significant estimates). These estimates involve judgments with respect to, among other things, various future economic factors that are difficult to predict and are beyond the control of the Company. Therefore, actual results could differ from those estimates.

The Company records certain assets and liabilities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71. If the Company were required to terminate application of SFAS No. 71 for its regulated operations, all such deferred amounts would be recognized in the income statement at that time. This would result in a charge to earnings, net of applicable income taxes, which could be material.

FASB Statements and Other Authoritative Pronouncements

Effective January 1, 2001, the Company adopted Financial Accounting Standards Board ("FASB") SFAS No. 133 as amended by SFAS No. 137 and 138, which established accounting and reporting standards for derivative instruments,

including certain derivative instruments embedded in other contracts, and for hedging activities. Their adoption did not have a material impact on the Company's financial position or results of operations.

On June 30, 2001, the FASB issued SFAS Nos. 141, 142 and 143. SFAS No. 141, "Business Combinations," eliminates the pooling-of-interest method of accounting for business combinations and requires the use of the purchase method. In addition, the reassessment of intangible assets to determine whether they are appropriately classified either separately or within goodwill is required. SFAS No. 141 is effective for business combinations initiated after June 30, 2001. The Company adopted SFAS No. 141 on July 1, 2001 with no material impact on net income.

SFAS No. 142, "Goodwill and Other Intangible Assets," eliminates the amortization of goodwill and other acquired intangible assets with indefinite economic useful lives. SFAS No. 142 requires an annual impairment test of goodwill and other intangible assets that are not subject to amortization. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001; however, amortization of goodwill for acquisitions completed after June 30, 2001 was prohibited. The impact of adopting SFAS No. 142 has not yet been determined but could be material if future results of the new water businesses do not meet expectations.

SFAS No. 143, "Accounting for Asset Retirement Obligations," provides guidance on the accounting for obligations associated with the retirement of long-lived assets. SFAS No. 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The potential impact of adopting SFAS No. 143 has not yet been determined.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," replaces SFAS No. 121. The statement develops one accounting model for long-lived assets to be disposed of by sale and addresses significant implementation issues. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The effect of implementing SFAS No. 144 has not yet been determined.

Restatement and Reclassification of Prior Years' Amounts

Certain prior years' amounts have been reclassified to conform to the current year presentation.

B. Business Combinations

During 2001, Chesapeake acquired Absolute Water Care, Inc. and selected assets of Aquarius Systems, Inc. and Automatic Water Conditioning, Inc., three water conditioning and treatment dealerships operating in Florida. In July 2001, Chesapeake purchased selected assets of EcoWater Systems of Rochester, located in Rochester, Minnesota and Intermountain Water, Inc. and Blue Springs Water, located in Boise, Idaho. These companies provide water treatment, water conditioning and bottled water to customers in those geographic regions.

In January 2000, Chesapeake acquired Carroll Water Systems, Inc. ("Carroll") of Westminster, Maryland. Carroll was a privately owned EcoWater dealership serving the suburban areas around Baltimore, Maryland.

In November 1999, Chesapeake acquired EcoWater Systems of Michigan, Inc., operating as Douglas Water Conditioning ("Douglas"). Douglas is an EcoWater dealership that has served the Detroit, Michigan area for 11 years.

These acquisitions were all accounted for as purchases and the Company's financial results include the results of operations from the dates of acquisition.

C. SEGMENT INFORMATION

Chesapeake uses the management approach to identify operating segments. Chesapeake organizes its business around differences in products or services and the operating results of each segment are regularly reviewed by the Company's chief operating decision maker in order to make decisions about resources and to assess performance. The following table presents information about the Company's reportable segments.

For the Years Ended December 31,	2001	2000	1999
Operating Revenues, Unaffiliated Customers			
Natural gas distribution and transmission	**$108,122,037**	$99,750,303	$75,592,453
Propane	**198,124,011**	216,272,941	138,436,520
Advanced information services	**14,103,890**	12,353,056	13,531,261
Other	**9,971,020**	7,036,544	2,640,101
Total operating revenues, unaffiliated customers	**$330,320,958**	$335,412,844	$230,200,335
Intersegment Revenues [1]			
Natural gas distribution and transmission	**$112,006**	$119,480	$61,141
Advanced information services	**0**	36,535	0
Other	**783,051**	814,995	659,624
Total intersegment revenues	**$895,057**	$971,010	$720,765
Operating Income Before Income Taxes			
Natural gas distribution and transmission	**$14,267,044**	$12,364,535	$10,300,455
Propane	**1,100,440**	2,319,461	2,627,123
Advanced information services	**517,427**	335,849	1,469,958
Other and eliminations	**(339,153)**	1,006,126	451,602
Total operating income before income taxes	**$15,545,758**	$16,025,971	$14,849,138
Depreciation and Amortization			
Natural gas distribution and transmission	**$5,667,001**	$4,930,445	$4,762,285
Propane	**1,436,550**	1,429,405	1,201,693
Advanced information services	**255,760**	280,053	268,082
Other	**974,171**	502,708	291,609
Total depreciation and amortization	**$8,333,482**	$7,142,611	$6,523,669
Capital Expenditures			
Natural gas distribution and transmission	**$23,791,057**	$17,882,724	$17,853,885
Propane	**1,847,913**	3,235,288	2,168,269
Advanced information services	**252,159**	240,727	372,501
Other	**3,294,678**	1,696,990	5,522,615
Total capital expenditures	**$29,185,807**	$23,055,729	$25,917,270

At December 31,	2001	2000	1999
Identifiable Assets			
Natural gas distribution and transmission	**$153,576,226**	$141,335,457	$117,024,633
Propane	**32,413,785**	47,495,133	31,888,633
Advanced information services	**2,583,740**	2,372,407	2,854,670
Other	**21,554,306**	19,496,506	15,220,578
Total identifiable assets	**$210,128,057**	$210,699,503	$166,988,514

[1] All significant intersegment revenues are billed at market rates and have been eliminated from consolidated revenues

D. Fair Value of Financial Instruments

Various items within the balance sheet are considered to be financial instruments because they are cash or are to be settled in cash. The carrying values of these items generally approximate their fair value (see Note E to the Consolidated Financial Statements for disclosure of fair value of investments). The Company's open forward and futures contracts at December 31, 2001 and December 31, 2000 had a net unrealized loss in fair value of $75,000 and a net unrealized gain in fair value of $831,000, respectively, based on market rates. The fair value of the Company's long-term debt is estimated using a discounted cash flow methodology. The Company's long-term debt at December 31, 2001, including current maturities, had an estimated fair value of $56.9 million as compared to a carrying value of $51.1 million. At December 31, 2000, the estimated fair value was approximately $56.0 million as compared to a carrying value of $53.6 million. These estimates are based on published corporate borrowing rates for debt instruments with similar terms and average maturities.

E. Investments

The investment balances at December 31, 2001 and 2000 consisted primarily of a Rabbi Trust ("the trust") associated with the acquisition of Xeron, Inc. The Company has classified the underlying investments held by the trust as trading securities, which require all gains and losses to be recorded into non-operating income. The trust was established during the acquisition as a retention bonus for an executive of Xeron. The Company has an associated liability recorded which is adjusted, along with non-operating expense, for the gains and losses incurred by the trust.

In November 1999, Chesapeake finalized the sale of its investment in Florida Public Utilities Company ("FPU") for $16.50 per share. Chesapeake recognized a gain on the sale of $1,415,000 pre-tax or $863,000 after-tax. The Company had a 7.3 percent ownership interest in the common stock of FPU, which had been classified as an available for sale security. This classification required that all unrealized gains and losses be excluded from earnings and be reported net of income tax as a separate component of stockholders' equity.

F. Common Stock and Additional Paid-in Capital

The following is a schedule of changes in the Company's shares of common stock.

For the Years Ended December 31,	2001	2000	1999
Common Stock: Shares issued and outstanding (1)			
Balance — beginning of year	**5,297,443**	5,186,546	5,093,788
Dividend Reinvestment Plan (2)	**43,101**	41,056	36,319
Sale of stock to the Company's Retirement Savings Plan	**54,921**	52,093	46,208
Conversion of debentures	**6,395**	10,628	8,631
Performance shares and options exercised	**23,102**	7,120	1,600
Balance — end of year (3)	**5,424,962**	5,297,443	5,186,546

(1) 12,000,000 shares are authorized at a par value of $.4867 per share.

(2) Includes dividends and reinvested optional cash payments.

(3) The Company had 30,446 and 7,442 shares held in Rabbi Trusts at December 31, 2001 and 2000, respectively.

In 2000 and 2001, the Company entered into agreements with an investment banker to assist in identifying acquisition candidates. Under the agreements, the Company issued warrants to the investment banker to purchase 15,000 shares of Company stock in 2001 at a price of $18.25 per share and 15,000 shares in 2000 at a price of $18.00. The warrants are exercisable during a seven-year period after the date granted. The Company has recognized expenses of $47,500 related to the warrants. No warrants have been exercised.

G. SHORT-TERM BORROWING

The Board of Directors has authorized the Company to borrow up to $55.0 million from various banks and trust companies. As of December 31, 2001, the Company had three unsecured bank lines of credit totaling $65.0 million, none of which required compensating balances. Under these lines of credit, the Company had short-term debt outstanding of $42.1 million and $25.4 million at December 31, 2001 and 2000, respectively, with weighted average interest rates of 4.43 percent and 6.89 percent, respectively.

H. LONG-TERM DEBT

The outstanding long-term debt, net of current maturities, is as shown below.

At December 31,	2001	2000
First mortgage sinking fund bonds:		
9.37% Series I, due December 15, 2004	$ 1,512,000	$ 2,268,000
Uncollateralized senior notes:		
7.97% note, due February 1, 2008	6,000,000	7,000,000
6.91% note, due October 1, 2010	7,272,727	8,181,818
6.85% note, due January 1, 2012	10,000,000	10,000,000
7.83% note, due January 1, 2015	20,000,000	20,000,000
Convertible debentures:		
8.25% due March 1, 2014	3,358,000	3,471,000
Mortgage payable	265,869	-
Total long-term debt	$ 48,408,596	$ 50,920,818

Annual maturities of consolidated long-term debt for the next five years are as follows: $2,686,145 for 2002, $3,688,006 for 2003, $3,690,031 for 2004, $2,936.236 for 2005 and $5,099,959 for 2006.

The convertible debentures may be converted, at the option of the holder, into shares of the Company's common stock at a conversion price of $17.01 per share. During 2001 and 2000, debentures totaling $109,000 and $181,000, respectively, were converted. The debentures are redeemable at the option of the holder, subject to an annual non-cumulative maximum limitation of $200,000 in the aggregate. At the Company's option, the debentures may be redeemed at the stated amounts. During 2001 and 2000, debentures totaling $4,000 and $10,000 were redeemed.

Indentures to the long-term debt of the Company and its subsidiaries contain various restrictions. The most stringent restrictions state that the Company must maintain equity of at least 40 percent of total capitalization and the times interest earned ratio must be at least 2.5.

Portions of the Company's natural gas distribution plant assets are subject to a lien under the mortgage pursuant to which the Company's first mortgage sinking fund bonds are issued.

I. LEASE OBLIGATIONS

The Company has entered several operating lease arrangements for office space at various locations and pipeline facilities. Rent expense related to these leases was $827,000, $652,000 and $357,000 for 2001, 2000 and 1999, respectively. Future minimum payments under the Company's current lease agreements are $858,000, $795,000, $693,000, $531,000 and $289,000 for the years of 2002 through 2006, respectively; and $793,000 thereafter, totaling $4.0 million.

J. EMPLOYEE BENEFIT PLANS

Pension Plan

In December 1998, the Company restructured the employee benefit plans to be competitive with those in similar industries. Chesapeake offered existing participants of the defined benefit plan the option to remain in the existing plan or receive a one-time payout and enroll in an enhanced retirement savings plan. Chesapeake closed the defined benefit plan to new participants, effective December 31, 1998. Benefits under the plan are based on each participant's years of service and highest average compensation. The Company's funding policy provides that payments to the trustee shall be equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

The following schedule sets forth the funded status of the pension plan at December 31, 2001 and 2000:

At December 31,	2001	2000
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 8,826,534**	$ 8,241,995
Service cost	**347,955**	354,031
Interest cost	**646,205**	605,185
Change in discount rate	**659,629**	-
Actuarial loss	**47,068**	8,153
Benefits paid	**(407,027)**	(382,830)
Benefit obligation at end of year	**10,120,364**	8,826,534
Change in plan assets:		
Fair value of plan assets at beginning of year	**11,738,984**	10,185,394
Actual return on plan assets	**413,617**	1,936,420
Benefits paid	**(407,027)**	(382,830)
Fair value of plan assets at end of year	**11,745,574**	11,738,984
Funded Status	**1,625,210**	2,912,450
Unrecognized transition obligation	**(66,059)**	(81,163)
Unrecognized prior service cost	**(53,055)**	(57,754)
Unrecognized net gain	**(2,413,816)**	(3,883,807)
Accrued pension cost	**$ (907,720)**	$ (1,110,274)
Assumptions:		
Discount rate	**7.00%**	7.50%
Rate of compensation increase	**4.75%**	4.75%
Expected return on plan assets	**8.50%**	8.50%

Net periodic pension costs for the defined pension benefit plan for 2001, 2000 and 1999 include the components as shown below:

For the Years Ended December 31,	2001	2000	1999
Components of net periodic pension cost:			
Service cost	**$ 347,955**	$ 354,031	$ 400,921
Interest cost	**646,205**	605,185	688,198
Expected return on assets	**(981,882)**	(859,245)	(1,046,254)
Amortization of:			
Transition assets	**(15,104)**	(15,104)	(15,104)
Prior service cost	**(4,699)**	(4,699)	(4,699)
Actuarial gain	**(195,029)**	(141,533)	(118,142)
Net periodic pension benefit	**(202,554)**	(61,365)	(95,080)

The Company sponsors an unfunded executive excess benefit plan. The accrued benefit obligation and accrued pension costs were $1,170,000 and $687,000, respectively, as of December 31, 2001 and $676,000 and $515,000, respectively, at December 31, 2000.

Retirement Savings Plan

The Company sponsors a 401(k) Retirement Savings Plan, which provides participants a mechanism for making contributions for retirement savings. Each participant may make pre-tax contributions of up to 15 percent of eligible base compensation, subject to IRS limitations. For participants still covered by the defined benefit pension plan, the Company makes a contribution matching 60 percent or 100 percent of each participant's pre-tax contributions based on the participant's years of service, not to exceed 6 percent of the participant's eligible compensation for the plan year.

Effective January 1, 1999, the Company began offering an enhanced 401(k) plan to all new employees, as well as existing employees that elected to no longer participate in the defined benefit plan. The Company makes matching contributions on a basis of up to 6 percent of each employee's pre-tax compensation for the year. The match is between 100 percent and 200 percent, based on a combination of the employee's age and years of service. The first 100 percent of the funds are matched with Chesapeake common stock. The remaining match is invested in the Company's 401(k) plan according to each employee's election options. On December 1, 2001, the Company converted the 401(k) fund holding Chesapeake stock to an Employee Stock Ownership Plan.

Effective, January 1, 1999 the Company began offering a non-qualified supplemental employee retirement savings plan open to Company executives over a specific income threshold. Participants receive a cash only matching contribution percentage equivalent to their 401(k) match level. All contributions and matched funds earn interest income monthly. This Plan is not funded externally.

The Company's contributions to the 401(k) plans totaled $1,352,000, $1,231,000 and $1,066,000 for the years ended December 31, 2001, 2000 and 1999, respectively. As of December 31, 2001, there are 273,333 shares reserved to fund future contributions to the Retirement Savings Plan.

Other Post-retirement Benefits

The Company sponsors a defined benefit post-retirement health care and life insurance plan that covers substantially all natural gas and corporate employees.

Net periodic post-retirement costs for 2001, 2000 and 1999 include the following components:

For the Years Ended December 31,	2001	2000	1999
Components of net periodic post-retirement cost:			
Service cost	**$ 887**	$ 1,803	$ 3,322
Interest cost	**49,799**	57,584	55,023
Amortization of:			
Transition obligation	**27,859**	27,859	27,859
Actuarial (gain) loss	**(1,717)**	-	3,130
Net periodic post-retirement cost	**76,828**	87,246	89,334
Amounts amortized	**-**	25,028	25,254
Total post-retirement cost accruals	**$ 76,828**	$ 112,274	$ 114,588

The following schedule sets forth the status of the post-retirement health care and life insurance plan:

At December 31,		2001		2000
Change in benefit obligation:				
Benefit obligation at beginning of year	$	**832,535**	$	788,532
Retirees		**(58,485)**		23,708
Fully-eligible active employees		**(24,453)**		48,992
Other active		**(25,671)**		(28,697)
Benefit obligation at end of year	$	**723,926**	$	832,535
Funded Status	$	**(723,926)**	$	(832,535)
Unrecognized transition obligation		**133,718**		161,577
Unrecognized net (gain) loss		**(73,737)**		61,543
Accrued post-retirement cost	$	**(663,945)**	$	(609,415)
Assumptions:				
Discount rate		**7.00%**		7.50%

The health care inflation rate for 2001 is assumed to be 7.5 percent. This rate is projected to gradually decrease to an ultimate rate of 5 percent by the year 2007. A one percentage point increase in the health care inflation rate from the assumed rate would increase the accumulated post-retirement benefit obligation by approximately $68,000 as of January 1, 2002, and would increase the aggregate of the service cost and interest cost components of the net periodic post-retirement benefit cost for 2002 by approximately $5,000.

K. Executive Incentive Plans

The Performance Incentive Plan ("the Plan") adopted in 1992 allows for the granting of stock options, stock appreciation rights and performance shares to certain officers of the Company over a 10-year period. Stock options granted under the Plan entitle participants to purchase shares of the Company's common stock, exercisable in cumulative installments of up to one-third on each anniversary of the commencement of the award period. The Plan also enables participants the right to earn performance shares upon the Company's achievement of certain performance goals as set forth in the specific agreements associated with particular options and/or performance shares.

The Company executed Stock Option Agreements for a three-year performance period ending December 31, 2000 with certain executive officers. One-half of these options become exercisable over time and the other half become exercisable if certain performance targets are achieved. In 2000, the Company replaced the third year of this Stock Option Agreement with Stock Appreciation Rights ("SARs"). The SARs are awarded based on performance with a minimum number of SARs established for each participant. During 2001 and 2000, the Company granted 10,650 and 13,150 SARs, respectively, in conjunction with the agreement. Chesapeake currently awards Performance Share Agreements annually for certain other executive officers. Each year participants are eligible to earn a maximum number of performance shares, based on the Company's achievement of certain performance goals. The Company recorded compensation expense of $123,000, $118,000 and $131,000 associated with these performance shares in 2001, 2000 and 1999, respectively.

Changes in outstanding options were as shown on the chart below:

	2001		2000		1999	
	Number of shares	Option Price	Number of shares	Option Price	Number of shares	Option Price
Balance — beginning of year	110,093	$12.75 — $20.50	163,637	$12 75 — $20 50	163,637	$12 75 — $20 50
Options exercised	(53,220)	$12.75				
Options expired	(14,925)	$12.75				
Options forfeited or replaced			(53,544)	$20 50		
Balance — end of year	41,948	$20.50	110,093	$12 75 — $20.50	163,637	$12 75 — $20 50
Exercisable	41,948	$20.50	110,093	$12.75 — $20.50	85,735	$12 75 — $20 50

In December 1997, the Company granted stock options to certain executive officers of the Company. SFAS No. 123 requires the disclosure of pro forma net income and earnings per share as if fair value based accounting had been used to account for the stock-based compensation costs. Accordingly, pro forma net income, basic earnings per share and diluted earnings per share for 2000 were $7,475,885, $1.42 and $1.40, respectively. Pro forma net income, basic earnings per share and diluted earnings per share for 1999 were $8,230,868, $1.60 and $1.57, respectively. The assumptions used in calculating the pro forma information were: dividend yield, 4.73 percent; expected volatility, 15.53 percent; risk-free interest rate, 5.89 percent; and an expected life of 4 years. No options have been granted since 1997; therefore, there is no pro forma impact for 2001.

L. Environmental Commitments and Contingencies

The Company is currently participating in the investigation, assessment or remediation of three former gas manufacturing plant sites located in different jurisdictions, including the exploration of corrective action options to remove environmental contaminants. The Company has accrued liabilities for the Dover Gas Light, Salisbury Town Gas Light and the Winter Haven Coal Gas sites.

In May 2001, Chesapeake, General Public Utilities Corporation, Inc. ("GPU"), the State of Delaware and the United States Environmental Protection Agency ("EPA") signed a settlement term sheet reflecting the agreement in principle to settle a lawsuit with respect to the Dover Gas Light site. The parties are in the process of memorializing the terms of the final agreement in two consent decrees. The consent decrees will then be published for public comment and submitted to a federal judge for approval.

If the agreement in principle receives final approval, Chesapeake will:

- Design and construct a parking lot on the site and dismantle the soil vapor extraction system that has been erected at the site.
- Receive a net payment of $1.15 million from other parties to the agreement. These proceeds will be passed on to Chesapeake's firm customers, in accordance with the environmental rate rider.
- Receive a release from liability and covenant not to sue from the EPA and the State of Delaware. This will relieve Chesapeake from liability for future remediation at the site, unless previously unknown conditions are discovered at the site, or information previously unknown to EPA is received that indicates the remedial action related to the former manufactured gas plant is not sufficiently protective. These contingencies are standard, and are required by the United States in all liability settlements.

At December 31, 2001, the Company had accrued $2.1 million (discounted) of costs associated with the remediation of the Dover site and had recorded an associated regulatory asset for the same amount. Of that amount, $1.5 million was for estimated ground-water remediation and $600,000 was for remaining soil remediation. The $1.5 million represented the low end of the ground-water remediation estimates prepared by an independent consultant and was used because the Company could not, at that time, predict the remedy the EPA might require.

Through December 31, 2001, the Company has incurred approximately $8.9 million in costs relating to environmental testing and remedial action studies at the Dover site. Approximately $6.0 million has been recovered through December 2001 from other parties or through rates.

Upon receiving final court approval of the consent decrees, Chesapeake will reduce both the accrued environmental liability and the associated environmental regulatory asset to the amount required to complete its obligations (primarily the final demobilization of the remedial system and final design and construction of the parking lot).

The second site is the Salisbury Town Gas Light Site in Salisbury, Maryland. In cooperation with the Maryland Department of the Environment ("MDE"), the Company is engaged in remediation that primarily includes the following: (1) operation of an air sparging/soil vapor extraction ("AS/SVE") remedial system; (2) monitoring and recovery of product from recovery wells; and (3) monitoring of ground-water quality. In February 2002, the MDE granted permission to permanently decommission the AS/SVE system and abandon nearly all of the monitoring wells on-site and off-site. The Company is currently seeking a No Further Action ("NFA") for the site. The NFA would be conditional upon the Company performing continued product monitoring and recovery at one well location and implementing land use controls. Evaluation of historical sampling results is currently being performed to determine the level of land use controls that will be required by the MDE for the site. A plan for decommissioning the AS/SVE system and monitoring well network is currently being prepared for approval from the MDE. The final decommissioning and well abandonment is anticipated to occur in the second quarter of 2002.

The Company has adjusted the liability with respect to the Salisbury site to $100,000 at December 31, 2001. The Company had previously accrued $175,000 as of December 31, 2000. This amount is based on the estimated costs to perform limited product monitoring and recovery efforts, abandon the monitoring well network, decommission the remedial system and fulfill ongoing reporting requirements. A corresponding regulatory asset has been recorded, reflecting the Company's belief that costs incurred will be recoverable in base rates.

Through December 31, 2001, the Company has incurred approximately $2.8 million for remedial actions and environmental studies at the Maryland site. Of this amount, approximately $1.7 million has been recovered through insurance proceeds or ratemaking treatment.

The third site is located in the state of Florida and in January 2001 the Company filed a remedial action plan ("RAP") with the Florida Department of the Environment ("FDEP"). The RAP was approved by the FDEP on May 4, 2001. The current estimate of costs to complete the RAP is $1 million (discounted). Accordingly, at December 31, 2001, the Company accrued a liability of $1 million. Through December 31, 2001, the Company has incurred approximately $80,000 of environmental costs associated with the Florida site. At December 31, 2001, the Company had collected $523,000 in excess of costs incurred. A regulatory asset of $477,000 representing the uncollected portion of the estimated clean up costs has also been recorded. Once the FDEP approves the RAP, the Company will commence with the remediation procedures per the RAP.

It is management's opinion that any unrecovered current costs and any other future costs associated with any of the three sites incurred will be recoverable through future rates or sharing arrangements with other responsible parties.

M. Other Commitments and Contingencies

Natural Gas Supply

The Company's natural gas distribution operations have entered into contractual commitments for daily entitlements of natural gas from various suppliers. The contracts have various expiration dates. In 2000, the Company entered into a

long-term contract with an energy marketing and risk management company to manage a portion of the Company's natural gas transportation and storage capacity. That contract remains in effect.

Other

The Company is involved in certain legal actions and claims arising in the normal course of business. The Company is also involved in certain legal and administrative proceedings before various governmental agencies concerning rates. In the opinion of management, the ultimate disposition of these proceedings will not have a material effect on the consolidated financial position of the Company.

N. Quarterly Financial Data (Unaudited)

In the opinion of the Company, the quarterly financial information shown below includes all adjustments necessary for a fair presentation of the operations for such periods. Due to the seasonal nature of the Company's business, there are substantial variations in operations reported on a quarterly basis.

For the Quarters Ended	March 31	June 30	September 30	December 31
2001				
Operating Revenue	**$ 134,039,485**	**$ 71,051,256**	**$ 55,567,288**	**$ 69,662,928**
Operating Income	**6,666,331**	**1,741,229**	**562,419**	**2,548,236**
Net Income	**5,365,469**	**666,726**	**(674,966)**	**1,364,307**
Earnings per share.				
Basic	**$ 1.01**	**$ 0.12**	**$ (0.13)**	**$ 0.25**
Diluted	**$ 0.98**	**$ 0.12**	**$ (0.13)**	**$ 0.25**
2000				
Operating Revenue	$ 98,509,179	$ 65,950,982	$ 59,212,768	$ 111,739,915
Operating Income	6,640,727	1,235,233	(43,959)	3,806,045
Net Income	5,669,466	319,548	(1,044,709)	2,544,896
Earnings per share.				
Basic	$ 1.09	$ 0.06	$ (0.20)	$ 0.48
Diluted	$ 1 05	$ 0.06	$ (0.20)	$ 0.47

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information pertaining to the Directors of the Company is incorporated herein by reference to the Proxy Statement, under "Information Regarding the Board of Directors and Nominees" and Section 16(a) Beneficial Ownership Reporting Compliance" to be filed not later than April 30, 2002 in connection with the Company's Annual Meeting to be held on May 21, 2002.

The information required by this item with respect to executive officers is, pursuant to instruction 3 of paragraph (b) of Item 401 of Regulation S-K, set forth in Part I of this Form 10-K under "Executive Officers of the Registrant."

ITEM 11. EXECUTIVE COMPENSATION

This information is incorporated herein by reference to the portion of the Proxy Statement captioned "Management Compensation Committee Interlocks and Insider Participation", in the Proxy Statement to be filed not later than April 30, 2002, in connection with the Company's Annual Meeting to be held on May 21, 2002.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is incorporated herein by reference to the portion of the Proxy Statement captioned "Beneficial Ownership of the Company's Securities" to be filed not later than April 30, 2002 in connection with the Company's Annual Meeting to be held on May 21, 2002.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is incorporated herein by reference to the portion of the Proxy Statement captioned "Certain Transactions" to be filed not later than April 30, 2002, in connection with the Company's Annual Meeting to be held on May 21, 2002.

PART IV

ITEM 14. FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES, EXHIBITS AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

1. Financial Statements:
   - Accountants' Report dated February 15, 2002 of PricewaterhouseCoopers LLP, Independent Accountants
   - Consolidated Statements of Income for each of the three years ended December 31, 2001, 2000 and 1999
   - Consolidated Balance Sheets at December 31, 2001 and December 31, 2000
   - Consolidated Statements of Cash Flows for each of the three years ended December 31, 2001,2000 and 1999
   - Consolidated Statements of Common Stockholders' Equity for each of the three years ended December 31, 2001, 2000 and 1999
   - Consolidated Statements of Income Taxes for each of the three years ended December 31, 2001, 2000 and 1999
   - Notes to Consolidated Financial Statements

2. Financial Statement Schedules — Schedule II - Valuation and Qualifying Accounts

All other schedules are omitted because they are not required, are inapplicable or the information is otherwise shown in the financial statements or notes thereto.

(b) Reports on Form 8-K:

None

(c) Exhibits:

Exhibit 3(a)	Amended Certificate of Incorporation of Chesapeake Utilities Corporation is incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1998, File No. 001-11590.
Exhibit 3(b)	Amended Bylaws of Chesapeake Utilities Corporation, effective August 20, 1999, are incorporated herein by reference to Exhibit 3 of the Company's Registration Statement on Form 8-A, File No. 001-11590, filed August 24, 1999.
Exhibit 4(a)	Form of Indenture between the Company and Boatmen's Trust Company, Trustee, with respect to the 8 1/4% Convertible Debentures is incorporated herein by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-2, Reg. No. 33-26582, filed on January 13, 1989.
Exhibit 4(b)	Note Agreement dated February 9, 1993, by and between the Company and Massachusetts Mutual Life Insurance Company and MML Pension Insurance Company, with respect to $10 million of 7.97% Unsecured Senior Notes due February 1, 2008, is incorporated herein by reference to Exhibit 4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992, File No. 0-593.
Exhibit 4(c)	Note Purchase Agreement entered into by the Company on October 2, 1995, pursuant to which the Company privately placed $10 million of its 6.91% Senior Notes due in 2010, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.
Exhibit 4(d)	Note Purchase Agreement entered into by the Company on December 15, 1997, pursuant to which the Company privately placed $10 million of its 6.85% senior notes due 2012, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.
Exhibit 4(e)	Note Purchase Agreement entered into by the Company on December 27, 2000, pursuant to which the Company privately placed $20 million of its 7.83% senior notes due 2015, is not being filed herewith,

in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.

*Exhibit 10(a)	Executive Employment Agreement dated March 26, 1997, by and between Chesapeake Utilities Corporation and each Ralph J. Adkins and John R. Schimkaitis is incorporated herein by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1997, File No. 001-11590.
*Exhibit 10(b)	Executive Employment Agreement dated January 1, 2001, by and between Chesapeake Utilities Corporation and Ralph J. Adkins is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 001-11590.
*Exhibit 10(c)	Form of Performance Share Agreement dated January 1, 1998, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Ralph J. Adkins and John R. Schimkaitis is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997, File No. 001-11590.
*Exhibit 10(d)	Form of Performance Share Agreement dated January 1, 2002, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Ralph J. Adkins, John R. Schimkaitis, Michael P. McMasters, William C. Boyles and Stephen C. Thompson, filed herewith.
*Exhibit 10(e)	Chesapeake Utilities Corporation Cash Bonus Incentive Plan dated January 1, 1992, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991, File No. 0-593.
*Exhibit 10(f)	Chesapeake Utilities Corporation Performance Incentive Plan dated January 1, 1992, is incorporated herein by reference to the Company's Proxy Statement dated April 20, 1992, in connection with the Company's Annual Meeting held on May 19, 1992.
*Exhibit 10(g)	Form of Stock Appreciation Rights Agreement dated January 1, 2001, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Philip S. Barefoot, William C. Boyles, Thomas A. Geoffroy, James R. Schneider and William P. Schneider is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 001-11590.
*Exhibit 10(h)	Directors Stock Compensation Plan adopted by Chesapeake Utilities Corporation in 1995 is incorporated herein by reference to the Company's Proxy Statement dated April 17, 1995 in connection with the Company's Annual Meeting held in May 1995.
*Exhibit 10(i)	United Systems, Inc. Executive Appreciation Rights Plan dated December 31, 2000 is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 001-11590.
*Exhibit 10(j)	United Systems, Inc. Employee Appreciation Rights Plan dated December 31, 2000 is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 001-11590.
Exhibit 12	Computation of Ratio of Earning to Fixed Charges, filed herewith.
Exhibit 21	Subsidiaries of the Registrant, filed herewith.
Exhibit 23	Consent of Independent Accountants, filed herewith.

* Management contract or compensatory plan or agreement.

SIGNATURES

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

CHESAPEAKE UTILITIES CORPORATION

By: /S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
President and Chief Executive Officer
Date: March 15, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/S/ RALPH J. ADKINS
Ralph J. Adkins, Chairman of the Board and Director
Date: March 15, 2002

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis, President, Chief Executive Officer and Director
Date: March 15, 2002

/S/ MICHAEL P. MCMASTERS
Michael P. McMasters, Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
Date: March 15, 2002

/S/ RICHARD BERNSTEIN
Richard Bernstein, Director
Date: March 15, 2002

/S/ THOMAS J. BRESNAN
Thomas J. Bresnan, Director
Date: March 15, 2002

/S/ WALTER J. COLEMAN
Walter J. Coleman
Date: March 15, 2002

/S/ JOHN W. JARDINE, JR.
John W. Jardine, Jr., Director
Date: March 15, 2002

/S/ J. PETER MARTIN
J. Peter Martin, Director
Date: March 15, 2002

/S/ JOSEPH E. MOORE, ESQ.
Joseph E. Moore, Esq., Director
Date: March 15, 2002

/S/ CALVERT A. MORGAN, JR.
Calvert A. Morgan, Jr., Director
Date: March 15, 2002

/S/ RUDOLPH M. PEINS, JR.
Rudolph M. Peins, Jr., Director
Date: March 15, 2002

/S/ ROBERT F. RIDER
Robert F. Rider, Director
Date: March 15, 2002

/S/ JEREMIAH P. SHEA
Jeremiah P. Shea, Director
Date: March 15, 2002

Chesapeake Utilities Corporation and Subsidiaries
Schedule II
Valuation and Qualifying Accounts

For the Year Ended December 31,	Balance at Beginning of Year	Additions: Charged to Income	Additions: Other Accounts [1]	Deductions [2]	Balance at End of Year
Reserve Deducted From Related Assets					
Reserve for Uncollectible Accounts					
2001	**$ 549,961**	**$ 592,590**	**$ 488,895**	**$ (1,009,930)**	**$ 621,516**
2000	$ 475.592	$ 342,407	$ 63,741	$ (331,779)	$ 549,961
1999	$ 302.513	$ 457,367	$ 74,877	$ (359,165)	$ 475,592

[1] Recoveries.

[2] Uncollectible accounts charged off

Chesapeake Utilities Corporation and Subsidiaries

Exhibit 12

Ratio of Earnings to Fixed Charges

For the Years Ended December 31,		2001		2000		1999
Income from continuing operations	$	6,721,537	$	7,489,201	$	8,270,986
Add:						
Income taxes		**4,252,275**		4,496,592		4,684,247
Portion of rents representative of interest factor		**275,773**		156,680		162,278
Interest on indebtedness		**5,178,495**		4,398,266		3,348,231
Amortization of debt discount and expense		**101,183**		111,122		117,966
Earnings as adjusted	**$**	**16,529,263**	$	16,651,861	$	16,583,708
Fixed Charges						
Portion of rents representative of interest factor	**$**	**275,773**	$	156,680	$	162,278
Interest on indebtedness		**5,178,495**		4,398,266		3,348,231
Amortization of debt discount and expense		**101,183**		111,122		117,966
Fixed Charges	**$**	**5,555,451**	$	4,666,068	$	3,628,475
Ratio of Earnings to Fixed Charges		**2.98**		3.57		4.57

Chesapeake Utilities Corporation
Exhibit 21
Subsidiaries of the Registrant

Subsidiaries	State Incorporated
Eastern Shore Natural Gas Company	Delaware
Sharp Energy, Inc.	Delaware
Chesapeake Service Company	Delaware
Xeron, Inc.	Mississippi
Sam Shannahan Well Company, Inc.	Maryland
Sharp Water, Inc	Delaware

Subsidiaries of Sharp Energy, Inc.	State Incorporated
Sharpgas, Inc.	Delaware
Tri-County Gas Co., Incorporated	Maryland

Subsidiaries of Chesapeake Service Company	State Incorporated
Skipjack, Inc.	Delaware
BravePoint, Inc.	Georgia
Chesapeake Investment Company	Delaware
Eastern Shore Real Estate	Maryland

Subsidiaries of Sharp Water, Inc.	State Incorporated
EcoWater Systems of Michigan, Inc.	Michigan
Carroll Water Systems, Inc.	Maryland
Absolute Water Care, Inc.	Florida
Sharp Water of Florida, Inc.	Delaware
Sharp Water of Idaho, Inc.	Delaware
Sharp Water of Minnesota, Inc.	Delaware
Sharp Water of Nevada, Inc.	Delaware

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-2 (No. 33-26582), Form S-3 (Nos. 33-28391, 33-64671, 333-63381 and 333-94159) and Form S-8 (No. 33-301175) of Chesapeake Utilities Corporation of our report dated February 15, 2002 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Philadelphia, Pennsylvania
March 29, 2002

Upon written request, Chesapeake will provide, free of charge, a copy of any exhibit to the 2001 Annual Report on Form 10-K not included in this document.

Exhibit A(2)

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2002

OR

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

For the transition period from ______ to ______

Commission File Number: 001-11590

CHESAPEAKE UTILITIES CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	51-0064146
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

909 Silver Lake Boulevard, Dover, Delaware 19904
(Address of principal executive offices, including Zip Code)

(302) 734-6799
(Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Common Stock, par value $.4867 — 5,484,404 shares issued as of June 30, 2002.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Chesapeake Utilities Corporation and Subsidiaries

Consolidated Statements of Income (Unaudited)

For the Three Months Ended June 30,	2002	2001
Operating Revenues	$ 53,235,106	$ 71,051,256
Cost of Sales	38,708,708	57,239,934
Gross Margin	14.526,398	13,811,322
Operating Expenses		
Operations	8,695,906	8,339,022
Maintenance	464,814	359,278
Depreciation and amortization	2,382,307	1,946,955
Other taxes	1,037,785	1,021,774
Income taxes	243,778	403,064
Total operating expenses	12,824,590	12,070,093
Operating Income	1,701,808	1,741,229
Other Income, net	39,577	114,337
Income Before Interest Charges	1,741,385	1,855,566
Interest Charges	1,211,691	1,188,840
Net Income	$ 529,694	$ 666,726
Earnings Per Share of Common Stock:		
Basic	$ 0 10	$ 0.12
Diluted	$ 0.10	$ 0.12

The accompanying notes are an integral part of these financial statements.

Chesapeake Utilities Corporation and Subsidiaries

Consolidated Statements of Income (Unaudited)

For the Six Months Ended June 30,	2002	2001
Operating Revenues	$ 121,776,065	$ 205,090,741
Cost of Sales	84,919,691	168,122,556
Gross Margin	36,856,374	36,968,185
Operating Expenses		
Operations	18,015,611	17,660,772
Maintenance	929,390	854,314
Depreciation and amortization	4,708,656	4,074,334
Other taxes	2,310,778	2,198,735
Income taxes	3,283,207	3,772,471
Total operating expenses	29,247,642	28,560,626
Operating Income	7,608,732	8,407,559
Other Income, net	250,627	249,210
Income Before Interest Charges	7,859,359	8,656,769
Interest Charges	2,446,187	2,624,574
Income Before Cumulative Effect of Change in Accounting Principle	5,413,172	6,032,195
Cumulative Effect of Change in Accounting Principle, net of tax	(1,916,000)	0
Net Income	$ 3,497,172	$ 6,032,195
Earnings Per Share of Common Stock:		
Basic		
Before effect of change in accounting principle	$ 0.99	$ 1.13
Effect of change in accounting principle	(0.35)	0.00
Net Income	$ 0 64	$ 1.13
Diluted		
Before effect of change in accounting principle	$ 0.97	$ 1.10
Effect of change in accounting principle	(0 34)	0.00
Net Income	$ 0.63	$ 1.10

The accompanying notes are an integral part of these financial statements.

Chesapeake Utilities Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

For the Six Months Ended June 30,	2002	2001
Operating Activities		
Net Income	$ 3,497,172	$ 6,032,195
Adjustments to reconcile net income to net operating cash:		
Goodwill impairment	**3,200,000**	0
Depreciation and amortization	**4,708,656**	4,074,334
Deferred income taxes, net	**(841,719)**	(501,427)
Mark-to-market adjustments	**36,616**	444,419
Other, net	**388,138**	1,326,839
Changes in assets and liabilities:		
Accounts receivable, net	**5,916,085**	20,025,737
Inventory, materials, supplies and storage gas	**1,240,642**	2,071,093
Other current assets	**(451,630)**	(680,538)
Environmental recoveries, net of expenditures	**465,376**	221,313
Other deferred charges	**(359,063)**	(1,700,944)
Accounts payable, net	**(3,899,222)**	(20,865,949)
Refunds payable to customers	**(614,544)**	(105,518)
Accrued income taxes	**2,461,214**	2,538,595
Accrued interest	**(68,967)**	1,167,805
Over (under) recovered deferred purchased gas costs	**5,682,150**	1,037,233
Other current liabilities	**(301,667)**	366,005
Net cash provided by operating activities	**21,059,237**	15,451,192
Investing Activities		
Property, plant and equipment expenditures	**(5,401,031)**	(9,811,537)
Net cash used by investing activities	**(5,401,031)**	(9,811,537)
Financing Activities		
Common stock dividends, net of amounts reinvested	**(2,653,816)**	(2,576,451)
Issuance of stock:		
Dividend Reinvestment Plan optional cash	**160,539**	88,746
Retirement Savings Plan	**513,753**	535,470
Net repayment under line of credit agreements	**(12,098,844)**	(3,200,000)
Proceeds from issuance of long-term debt	**60,681**	300,000
Repayment of long-term debt	**(1,398,497)**	(1,385,290)
Net cash used by financing activities	**(15,416,184)**	(6,237,525)
Net Increase (Decrease) in Cash and Cash Equivalents	242,022	(597,870)
Cash and Cash Equivalents — Beginning of Period	1,188,335	4,606,316
Cash and Cash Equivalents — End of Period	$ 1,430,357	$ 4,008,446

The accompanying notes are an integral part of these financial statements.

Chesapeake Utilities Corporation and Subsidiaries

Consolidated Balance Sheets (Unaudited)

Assets	June 30, 2002	December 31, 2001
Property, Plant and Equipment		
Natural gas distribution and transmission	$ 171,505,538	$ 168,436,347
Propane	34,759,452	34,695,862
Advanced information services	1,577,072	1,521,144
Other plant	12,997,903	12,249,442
Total property, plant and equipment	220,839,965	216,902,795
Less Accumulated depreciation and amortization	(70,312,737)	(66,646,944)
Net property, plant and equipment	150,527,228	150,255,851
Investments	425,863	517,901
Current Assets		
Cash and cash equivalents	1,430,357	1,188,335
Accounts receivable (less allowance for uncollectibles of $489,235 and $621,516, respectively)	15,350,224	21,266,309
Materials and supplies, at average cost	1,125,034	1,106,995
Merchandise inventory, at average cost	1,437,056	1,610,786
Propane inventory, at average cost	3,267,199	2,518,871
Storage gas prepayments	2,493,137	4,326,416
Underrecovered purchased gas costs	837,604	6,519,754
Income taxes receivable	0	675,504
Prepaid expenses and other current assets	2,624,039	2,209,026
Total current assets	28,564,650	41,421,996
Deferred Charges and Other Assets		
Environmental regulatory assets	2,655,964	2,677,010
Environmental expenditures	2,723,780	3,189,156
Intangible assets, net	4,399,723	7,724,283
Other deferred charges	5,407,832	5,141,363
Total deferred charges and other assets	15,187,299	18,731,812
Total Assets	$ 194,705,040	$ 210,927,560

The accompanying notes are an integral part of these financial statements.

Capitalization and Liabilities	June 30, 2002	December 31, 2001
Capitalization		
Stockholders' equity		
Common Stock, par value $.4867 per share; (authorized 12,000,000 shares, issued 5,484,404 and 5,424,962 shares, respectively)	$ 2,668,991	$ 2,640,060
Additional paid-in capital	30,784,867	29,653,992
Retained earnings	35,044,850	34,555,560
Total stockholders' equity	68,498,708	66,849,612
Long-term debt, net of current maturities	46,011,721	48,408,596
Total capitalization	114,510,429	115,258,208
Current Liabilities		
Current portion of long-term debt	3,707,283	2,686,145
Short-term borrowing	30,001,156	42,100,000
Accounts payable	10,652,398	14,551,621
Refunds payable to customers	357,031	971,575
Income taxes payable	1,785,710	0
Accrued interest	1,689,434	1,758,401
Dividends payable	1,507,329	1,491,832
Deferred income taxes payable	846,956	848,271
Other accrued liabilities	5,193,546	5,604,237
Total current liabilities	55,740,843	70,012,082
Deferred Credits and Other Liabilities		
Deferred income taxes	14,800,400	15,732,842
Deferred investment tax credits	574,949	602,357
Environmental liability	3,086,093	3,199,733
Accrued pension costs	1,625,362	1,595,650
Other liabilities	4,366,964	4,526,688
Total deferred credits and other liabilities	24,453,768	25,657,270
Total Capitalization and Liabilities	$ 194,705,040	$ 210,927,560

The accompanying notes are an integral part of these financial statements.

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Notes to Consolidated Financial Statements

1. Quarterly Financial Data

The financial information for Chesapeake Utilities Corporation (the "Company") included herein is unaudited and should be read in conjunction with the Company's Annual Report on Form 10-K. In the opinion of management, this financial information reflects normal recurring adjustments, including the cumulative effect of change in accounting principle, which are necessary for a fair presentation of the Company's interim results. Due to the seasonal nature of the Company's business, there are substantial variations in the results of operations reported on a quarterly basis and, accordingly, results for any particular quarter may not give a true indication of results for the year. Certain amounts in 2001 have been reclassified to conform to the presentation for the current year.

2. Calculation of Earnings Per Share

	Three Months Ended		Six Months Ended	
For the Period Ended June 30,	2002	2001	2002	2001
Calculation of Basic Earnings Per Share before Cumulative Effect of Change in Accounting Principle:				
Net Income before cumulative effect of change in accounting principle	$ 529,694	$ 666,726	$ 5,413,172	$ 6,032,195
Weighted average shares outstanding	5,478,714	5,354,405	5,461,443	5,336,184
Basic Earnings Per Share before Cumulative Effect of change in Accounting Principle	$ 0.10	$ 0 12	$ 0.99	$ 1.13
Calculation of Diluted Earnings Per Share before Cumulative Effect of Change in Accounting Principle:				
Reconciliation of Numerator:				
Net Income before cumulative effect of change in accounting principle — Basic	$ 529,694	$ 666,726	$ 5,413,172	$ 6,032,195
Effect of 8.25% Convertible debentures	0	0	83,168	85,793
Adjusted numerator — Diluted	$ 529,694	$ 666,726	$ 5,496,340	$ 6,117,988
Reconciliation of Denominator:				
Weighted shares outstanding — Basic	5,478,714	5,354,405	5,461,443	5,336,184
Effect of dilutive securities				
Stock options	0	8,237	0	8,097
Warrants	2,901	931	2,376	700
8 25% Convertible debentures	0	0	196,429	202,628
Adjusted denominator — Diluted	5,481,615	5,363,573	5,660,248	5,547,609
Diluted Earnings Per Share before Cumulative Effect of change in Accounting Principle	$ 0 10	$ 0 12	$ 0 97	$ 1.10

3. Commitments and Contingencies

Environmental Matters

The Company is currently participating in the remediation of three former gas manufacturing plant sites located in different jurisdictions. The Company has accrued liabilities for the Dover Gas Light, Salisbury Town Gas Light and the Winter Haven Coal Gas sites accordingly. The Company is currently in discussions with the Maryland Department of the Environment ("MDE") regarding a fourth site in Cambridge, Maryland.

The Dover Gas Light site is a former manufactured gas plant site located in Dover, Delaware. Remedies were selected by the United States Environmental Protection Agency ("EPA") to address the soil and ground-water During 2002, the Company has been engaged in completing the remaining component of the soil remediation, consisting of: (1) soil vapor extraction and (2) parking lot construction. The soil vapor extraction has been completed and the system has been dismantled. The parking lot construction is underway and expected to be completed in the third quarter of 2002.

In May 2001, the Company, General Public Utilities Corporation, Inc., the State of Delaware and the EPA signed a settlement term sheet reflecting the agreement in principle to settle a lawsuit with respect to the Dover site. The parties are in the process of memorializing the terms of the final agreement in two consent decrees. The consent decrees will then be published for public comment and submitted to a federal judge for approval.

If the agreement in principle receives final approval, the Company will:

- Receive a net payment of $1.15 million from other parties to the agreement. These proceeds will be passed on to the Company's firm customers, in accordance with the environmental rate rider.
- Receive a release from liability and covenant not to sue from the EPA and the State of Delaware. This will relieve the Company from liability for future remediation at the site, unless previously unknown conditions are discovered at the site, or information previously unknown to EPA is received that indicates the remedial action related to the prior manufactured gas plant is not sufficiently protective. These contingencies are standard, and are required by the United States in all liability settlements.

At June 30, 2002, the Company had accrued $2.1 million (discounted) of costs associated with the remediation of the Dover site and had recorded an associated regulatory asset for the same amount. Of that amount, $1.5 million was for estimated ground-water remediation and $600,000 was for remaining soil remediation. The $1.5 million represented the low end of the ground-water remediation estimates prepared by an independent consultant and was used because the Company could not, at that time, predict the remedy the EPA might require. Upon receiving final court approval of the consent decrees, the Company will reduce both the accrued environmental liability and the associated environmental regulatory asset to the amount required to complete its obligations.

Through June 30, 2002, the Company has incurred approximately $9.0 million in costs relating to environmental testing and remedial action studies at the Dover site. Approximately $6.6 million has been recovered through June 30, 2002 from other parties or through rates.

The Salisbury Town Gas Light site is a former manufactured gas plant site located in Salisbury, Maryland. In cooperation with the MDE, the Company has been engaged in remediation that primarily included the following: (1) operation of an air sparging/soil vapor extraction ("AS/SVE") remedial system; (2) monitoring and recovery of product from recovery wells; and (3) monitoring of ground-water quality. In accordance with MDE's permission to permanently decommission the AS/SVE system and abandon nearly all of the monitoring wells on-site and off-site, the final AS/SVE system decommissioning and monitoring well network abandonment was completed in March 2002. The Company is currently seeking a No Further Action ("NFA") for the site. The NFA would be conditional upon the Company performing continued product monitoring and recovery at one well location and implementing land use controls.

The Company has adjusted the liability with respect to the Salisbury site to $79,000 at June 30, 2002. This amount is based on the estimated costs to perform limited product monitoring and recovery efforts and fulfill ongoing reporting requirements. A corresponding regulatory asset has been recorded, reflecting the Company's belief that costs incurred will be recoverable in through rates.

Through June 30, 2002, the Company has incurred approximately $2.9 million for remedial actions and environmental studies at the Salisbury site. Of this amount, approximately $1.8 million has been recovered through insurance proceeds or ratemaking treatment.

The Winter Haven Coal Gas site is located in Winter Haven, Florida. In May 2001, the Florida Department of Environmental Protection ("FDEP") approved a remedial action plan that includes the utilization of the AS/SVE technologies to address ground-water impacts throughout a majority of the site. Completion of

construction and start-up of the AS/SVE system is projected to occur during the third quarter of 2002. The Company is currently negotiating with FDEP on the extent of additional investigation and remediation work required to address surface soil, ground-water and sediment impacts that will not be remediated by the AS/SVE system The current estimate of costs to complete the remediation activities at the site is approximately $907,000 (discounted). Accordingly, at June 30, 2002, the Company has accrued a liability of $907,000 Through June 30, 2002, the Company has incurred approximately $1.0 million of environmental costs associated with the Florida site. At June 30, 2002, the Company had collected $523,000 in excess of costs incurred. A regulatory asset of approximately $477,000 representing the uncollected portion of the estimated cleanup costs has also been recorded.

It is management's opinion that any unrecovered current costs and any other future costs associated with each of the three sites incurred will be recoverable through future rates or sharing arrangements with other responsible parties.

The MDE has requested a meeting with Chesapeake and two other parties to discuss the alleged manufactured gas plant contamination at the fourth site located in Cambridge, Maryland. The outcome of this matter cannot be determined at this time.

Other Commitments and Contingencies

The Company's natural gas distribution operations have entered into contractual commitments for daily entitlements of natural gas from various suppliers. The contracts have various expiration dates. In 2000, the Company entered into a long-term contract with an energy marketing and risk management company to manage a portion of the Company's natural gas transportation and storage capacity. That contract remains in effect.

The Company is involved in certain legal actions and claims arising in the normal course of business. The Company is also involved in certain legal and administrative proceedings before various governmental agencies concerning rates. In the opinion of management, the ultimate disposition of these proceedings will not have a material effect on the consolidated financial position of the Company.

Certain assets and liabilities of the Company are accounted for in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards ("SFAS") No. 71, which, among other matters, provides standards for regulated enterprises for the deferral of costs that will be recovered through future rate increases. If the Company were required to terminate the application of these standards to its regulated operations, all such deferred amounts would be recognized in the income statement at that time. This would result in a charge to earnings, net of applicable income taxes, which could be material.

4. Recent Authoritative Pronouncements on Financial Reporting and Accounting

The Company is in the process of assessing the provisions of a recent consensus reached by the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board that reconsidered certain provisions in EITF 02-03 "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." EITF 02-03 addresses the presentation of revenue and expense associated with energy trading contracts on a gross versus net basis. Previously, the EITF concluded that gross presentation was acceptable. However, during deliberations held in June 2002, a consensus was reached that net presentation should be required. This consensus also indicated that implementation would be effective for the third quarter 2002 reporting cycle. The final EITF has not yet been issued.

Under current standards, the Company classifies certain energy trading contracts entered into by its propane wholesale marketing operations on a gross basis. Recording the energy trading contracts on a net basis would not change the gross margin, net income, earnings per share or the financial position of

the Company. It would reduce reported amounts of both revenue and cost of sales. Based on the information currently available regarding the consensus, we expect that for fiscal 2001, previously reported gross revenue and cost of sales would each have been approximately $169.0 million lower. For the first six months of 2002, both revenue and cost of sales would have been approximately $44.0 million lower. As stated above, there would be no impact on gross margin, net income earnings per share or the financial position of the Company.

The EITF is still subject to deliberations. Until the final EITF is issued, we cannot be certain of its provisions

On June 30, 2001, the Financial Accounting Standards Board ("FASB") issued SFAS Nos. 142 and 143. SFAS No. 142, "Goodwill and Other Intangible Assets," eliminates the amortization of goodwill and other acquired intangible assets with indefinite economic useful lives. The pronouncement requires an annual impairment test of goodwill and other intangible assets that are not subject to amortization. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001; however, amortization of goodwill for acquisitions completed after June 30, 2001 was prohibited. This pronouncement was adopted in the first quarter of 2002. See Note 5 to the Consolidated Financial Statements for a description of its impact on the financial statements and additional disclosures required by the pronouncement.

SFAS No. 143, "Accounting for Asset Retirement Obligations," provides guidance on the accounting for obligations associated with the retirement of long-lived assets. The pronouncement requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The potential impact of adopting this pronouncement has not yet been determined.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," replaces SFAS No. 121. The statement develops one accounting model for long-lived assets to be disposed of by sale and addresses significant implementation issues. SFAS No. 144 was adopted in the first quarter of 2002, as required. Its adoption did not have a material impact on the Company's financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 covers the reporting of gains and losses on extinguishment of debt. This pronouncement is not expected to have a material impact on the Company's financial position or results of operations.

The FASB adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" in June 2002. It requires that a liability for a cost associated with an exit or disposal activity be recognized when a liability is incurred. Under previous guidelines, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. The Company does not currently have any exit or disposal liabilities recorded; therefore, adoption of this pronouncement is not expected to impact the Company's financial position or results of operations.

5. **Goodwill and Other Intangible Assets**

The Company adopted SFAS No. 142 in the first quarter of 2002. Application of the non-amortization provisions resulted in $68,000 of additional income ($0.013 per share), after tax, for the first six months of 2002 compared to 2001. The Company performed a test for goodwill impairment using the two-step process prescribed in SFAS No. 142. The first step was a screen for potential impairment, using January 1, 2002 as the measurement date. The second step was a measurement of the amount of the goodwill

determined to be impaired The results of the tests indicate that the goodwill associated with the Company's water business, which is included in the reportable segment entitled "Other Business Operations," has been impaired and that the amount of the impairment loss is $3.2 million. This was recorded as the cumulative effect of a change in accounting principle. The fair value of the water business was determined using several methods, including discounted cash flow projections and market valuations for recent purchases and sales of similar businesses. These were weighted based on their expected probability. The previous test for impairment of goodwill, prescribed under SFAS No. 121, looked at undiscounted cash flows. The determination that the goodwill associated with the Company's water business was impaired was the result of the more stringent tests required by the new pronouncement The performance of the Company's water unit in Michigan is the primary cause of the impairment.

The change in the carrying value of goodwill for the six months ended June 30, 2002 is as follows:

	Water Businesses	Propane	Total
Balance at January 1, 2002	$4,869,068	$674,451	$5,543,519
Impairment charge	(3,200,000)	0	(3,200,000)
Balance at June 30, 2002	$1,669,068	$674,451	$2,343,519

The impact of the non-amortization provision of SFAS No. 142 was as follows:

For the Three Months Ended June 30, 2001	**Net Income**	**Basic Earnings Per Share**	**Diluted Earnings Per Share**
Net Income	$666,726	$0.12	$0.12
Amortization of goodwill, after tax	34,549	0 01	0.01
Net Income, exclusive of amortization	$701,275	$0.13	$0.13

For the Six Months Ended June 30, 2001	**Net Income**	**Basic Earnings Per Share**	**Diluted Earnings Per Share**
Net Income	$6,032,195	$1.13	$1.10
Amortization of goodwill, after tax	68,393	0.01	0.02
Net Income, exclusive of amortization	$6,100,588	$1.14	$1 12

Intangible assets subject to amortization are as follows:

	June 30, 2002		**December 31, 2001**	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer Lists	$1,111,651	$135,563	$1,111,651	$82,141
Non-compete agreements	1,000,000	204,167	1,000,000	140,417
Acquisition costs	379,541	95,258	379,541	87,870
Total	$2,491,192	$434,988	$2,491,192	$310,428

Amortization of intangible assets was $125,000 for the six months ended June 30, 2002. For the year ended December 31, 2001, amortization of intangibles, excluding goodwill, was $132,000. The estimated annual amortization of intangibles for the next five years is. $230,000 for 2002; $224,000 for 2003; $224,000 for 2004; $213,000 for 2005; and $213,000 for 2006.

6. Segment Information

Chesapeake uses the management approach to identify operating segments. Chesapeake organizes its business around differences in products or services and the operating results of each segment are regularly reviewed by the Company's chief operating decision maker in order to make decisions about resources and to assess performance. The following table presents information about the Company's reportable segments.

For the Six Months Ended June 30,	2002	2001
Operating Revenues, Unaffiliated Customers		
Natural gas distribution and transmission	**$ 52,743,111**	$ 70,333,135
Propane	**56,784,013**	123,547,777
Advanced information services	**6,421,642**	7,095,884
Other	**5,827,299**	4,113 945
Total operating revenues, unaffiliated customers	**$ 121,776,065**	$ 205,090,741
Intersegment Revenues [1]		
Natural gas distribution and transmission	**$ 34,914**	$ 58,618
Other	**362,110**	420,331
Total intersegment revenues	**$ 397,024**	$ 478,949
Pre-tax operating income		
Natural gas distribution and transmission	**$ 9,246,110**	$ 8,885,220
Propane	**1,719,283**	3,099,388
Advanced information services	**103,938**	215,767
Other and eliminations	**(177,392)**	(20,345)
Total	**$ 10,891,939**	$ 12,180,030

[1] All significant intersegment revenues are billed at market rates and have been eliminated from consolidated revenues.

	June 30, 2002	December 31, 2001
Identifiable Assets		
Natural gas distribution and transmission	**$ 142,550,246**	$ 152,464,880
Propane	**32,779,155**	34,314,633
Advanced information services	**2,879,823**	2,593,740
Other	**16,495,816**	21,554,307
Total identifiable assets	**$ 194,705,040**	$ 210,927,560

During the second quarter of 2002, the Company reassigned the responsibility for management of its underground piped propane systems from the natural gas segment to the propane segment. The segment reporting information for 2002 and 2001 presented above reflects the reclassification

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

Business Description

Chesapeake Utilities Corporation (the "Company") is a diversified utility company engaged in natural gas distribution and transmission, propane distribution and marketing, advanced information services and other related businesses.

The Company's strategy is to grow earnings from a stable utility foundation by investing in related businesses and services that provide opportunities for higher, unregulated returns. This growth strategy includes acquisitions and investments in unregulated businesses as well as the continued investment and expansion of the Company's utility operations that provide the stable base of earnings. The Company continually reevaluates its investments to ensure that they are consistent with its strategy and the goal of enhancing shareholder value. The Company's unregulated businesses and services currently include propane distribution and marketing, advanced information services and water conditioning and treatment.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements reflect the capital-intensive nature of its business and are principally attributable to the construction program and the retirement of outstanding debt. The Company relies on cash generated by operations and short-term borrowing to meet normal working capital requirements and to temporarily finance capital expenditures. During the first six months of 2002, net cash provided by operating activities, net cash used by investing activities and net cash used by financing activities were approximately $21.1 million, $5.4 million and $15.4 million, respectively. Cash provided by operations was up $5.6 million in the first six months of 2002 compared to 2001. The cash flow increased due to a reduction in working capital requirements associated with lower energy prices. In 2002 the under-recovered purchased gas cost balance was reduced by $5.7 million, generating positive cash flow.

Based upon the Company's current level of short-term borrowing and the anticipated cash requirements in 2002, the Company expects to complete the private placement of $30.0 million of long-term debt and draw down the funds by the end of October 2002. The funds will be used to refinance short-term borrowing and fund capital expenditures. Chesapeake has received regulatory approval for the borrowing and the prospective lenders have completed due diligence procedures. The Company has agreed upon a fixed rate of 6.64 percent for this debt, contingent upon final approval.

The Board of Directors has authorized the Company to borrow up to $55.0 million of short-term debt from various banks and trust companies. Upon completion of the effected long-term debt placement, the limit on short-term borrowing will be adjusted to $45.0 million. As of June 30, 2002, Chesapeake had four unsecured bank lines of credit with three financial institutions, totaling $75.0 million, for short-term cash needs to meet seasonal working capital requirements and to temporarily fund portions of its capital expenditures. One of the bank lines, totaling $15.0 million, is committed. The other three lines are subject to the banks' availability of funds. In the first six months of 2002, cash provided by operations was adequate to fund capital expenditures and the reduction in short-term debt outstanding. At June 30, 2002, the debt outstanding under these lines was $30.0 million as compared to $31.6 million at March 31, 2002.

During the six-month periods ended June 30, 2002 and 2001, capital expenditures were approximately $5.4 million and $9.8 million, respectively. Chesapeake has budgeted $16.8 million for capital expenditures during 2002. This amount includes $11.8 million for natural gas distribution and transmission, $2.3 million for propane distribution and marketing, $200,000 for advanced information services and $2.5 million for other operations. The natural gas distribution and transmission expenditures are for expansion and improvement of facilities. The propane expenditures are to support customer growth and for the replacement of equipment. The advanced information services expenditures are for computer hardware, software and related equipment. Expenditures for other operations include expenditures to support customer growth and replace equipment for

water operations and general plant, computer software and hardware. Financing for the 2002 capital expenditure program is expected to be provided from short-term borrowing, cash provided by operating activities and the expected issuance of long-term debt. The capital expenditure program is subject to continuous review and modification. Actual capital requirements may vary from the above estimates due to a number of factors including acquisition opportunities, changing economic conditions, customer growth in existing areas, regulation, availability of capital and new growth opportunities.

The Company has budgeted $846,000 for capital expenditures in 2002 related to environmental remediation projects, and expects to make additional expenditures in future years, a portion of which may need to be financed through external sources. Management does not expect any such expenditures or financing to have a material adverse effect on the financial position or capital resources of the Company (see Note 3 to the Consolidated Financial Statements).

As of June 30, 2002, common equity represented 59.8 percent of total capitalization, compared to 58.0 percent as of December 31, 2001. Combining short-term financing with total capitalization, the equity component would have been 46.2 percent and 41.8 percent, respectively. The Company remains committed to maintaining a sound capital structure and strong credit ratings in order to provide the financial flexibility needed to access the capital markets when required. This commitment, along with adequate and timely rate relief for the Company's regulated operations, is intended to ensure that the Company will be able to attract capital from outside sources at a reasonable cost.

Interest expense for the first six months of 2002 decreased approximately $178,000, or 7 percent, over the same period in 2001. The decrease was due primarily to a reduction in the average interest rate for short-term borrowing from 5.67 percent on an average balance of $21.2 million for the first six months of 2001 to 2.37 percent on an average balance of $32.9 million for the same period in 2002. A reduction in the average long-term debt balance of $2.6 million due to scheduled repayments also contributed to this reduction.

Results of Operations for the Quarter Ended June 30, 2002

Consolidated Overview

The Company recognized net income before cumulative effect of change in accounting principle of $530.000, or $0.10 per share, for the second quarter of 2002, a decrease of $137,000, or $0.02 per share, compared to the corresponding period in 2001. As indicated in the following table, the decline in income is primarily attributable to a loss by the propane segment, as well as increased costs to add a corporate infrastructure to the water business, partially offset by higher pre-tax operating income in the natural gas and advanced information systems segments and lower taxes.

For the Three Months Ended June 30,	2002	2001	Change
Pre-tax Operating Income (Loss)			
Natural Gas Distribution & Transmission	$ 2,918,317	$ 2,607,934	$ 310,383
Propane	(1,086,750)	(586,793)	(499,957)
Advanced Information Services	175,954	112,154	63,800
Other & Eliminations	(61,935)	10,998	(72,933)
Pre-tax Operating Income	1,945,586	2,144,293	(198,707)
Operating Income Taxes	243,778	403,064	(159,286)
Interest	1,211,691	1,188,840	22,851
Non-Operating Income, net	39,577	114,337	(74,760)
Net Income	$ 529,694	$ 666,726	$ (137,032)

Natural Gas Distribution and Transmission

The natural gas distribution and transmission segment earned pre-tax operating income of $2.9 million for the second quarter of 2002 compared to $2.6 million for the corresponding period last year, an increase of $310,000.

For the Three Months Ended June 30,	2002	2001	Change
Revenue	$ 21,181,611	$ 26,316,606	$ (5,134,995)
Cost of gas	12,038,277	18,045,645	(6,007,368)
Gross margin	9,143,334	8,270,961	872,373
Operations & maintenance	3,944,297	3,735,712	208,585
Depreciation & amortization	1,642,188	1,323,805	318,383
Other taxes	638,532	603,510	35,022
Pre-tax operating expenses	6,225,017	5,663,027	561,990
Total Pre-tax Operating Income	$ 2,918,317	$ 2,607,934	$ 310,383

Revenue and cost of gas decreased due to lower natural gas commodity costs for the second quarter of 2002 compared to 2001. Commodity cost changes are passed on to the ratepayers through a Gas Cost Recovery ("GSR") or Purchased Gas Cost Adjustment ("PGA") in all jurisdictions; therefore, they have no impact on the Company's profitability. Revenue and cost of gas were also down in part because of "open access" which took effect in 2001 for all non-residential customers of the Florida division. As a result, some customers switched from sales service, where they purchase both the commodity and transportation from the Company, to purchasing transportation only.

Gross margin increased $872,000 over the same period in 2001 due to increases in the margins for the transmission operation and the Florida distribution operation. The transmission margin was up due to the completion of a system capacity expansion in November of 2001 that increased pipeline capacity by approximately 25 percent.

Gross margins for the Delaware and Maryland distribution divisions increased $149,000 from 2001 Temperatures were 5 percent warmer than the second quarter of 2001 (26 degree-days) and 11 percent (54 degree-days) warmer than the 10-year average Chesapeake estimates that on an annual basis for each degree-day warmer than the 10-year average, margins decrease by $1,730. However, an increase in the average number of customers and a rate increase in Delaware offset the temperature decline. Delaware and Maryland experienced an increase of 1,965 customers or 6 percent in the second quarter of 2002 compared to 2001. Chesapeake estimates that each customer added contributes $335 annually to earnings before interest, taxes, depreciation and amortization.

The margin increases were partially offset by higher operating expenses, primarily depreciation. The increase in depreciation reflects completion of recent capital projects that increased the transmission capacity by 25 percent and various expansion projects in Florida.

Propane

For the second quarter of 2002, the propane segment experienced a pre-tax operating loss of $1.1 million compared to $587,000 for the second quarter of 2001. Gross margin decreased $523,000, but was slightly offset by reductions in operating expenses of $23,000.

For the Three Months Ended June 30,	2002	2001	Change
Revenue	$ 25,672,867	$ 38,786,968	$(13,114,101)
Cost of sales	23,644,077	36,235,563	(12,591,486)
Gross margin	2,028,790	2,551,405	(522,615)
Operations & maintenance	2,547,658	2,640,271	(92,613)
Depreciation & amortization	420,399	334,265	86,134
Other taxes	147,483	163,662	(16,179)
Pre-tax operating expenses	3,115,540	3,138,198	(22,658)
Total Pre-tax Operating Loss	$ (1,086,750)	$ (586,793)	$ (499,957)

Both the revenue and cost of sales declined significantly for the propane segment. Propane wholesale marketing accounted for $12.5 million of the revenue decrease and $12.0 million of the cost of sales decrease. The drop primarily reflects the decrease in the wholesale prices for propane from the second quarter of 2001 compared to the second quarter of 2002. Additionally, the volume of activity was down due to the lower price volatility in 2002. A consensus was reached by the EITF in June 2002 to revise EITF 02-03 and disallow gross reporting of revenue and cost of sales for energy trading contracts. The Company's propane wholesale marketing operation currently uses the gross method for certain energy trading contracts. The final EITF has not been issued; however, implementation is expected to be required in the third quarter of 2002. The requirement that all energy trading contracts be reported net would reduce both the revenue and cost of sales by approximately $21.6 million in 2002 and approximately $34.1 million in 2001. There is no impact on the gross margin, net income, earnings per share or the financial position of the Company.

Propane wholesale marketing margins declined by $513,000 and were partially offset by a reduction of $129,000 in operating expenses. The 2001 results reflected increased opportunities due to the extreme price volatility in the propane wholesale market. The same level of price fluctuations has not been experienced in 2002. Although the propane wholesale marketing business has not been as profitable as in 2001, on a year-to-date basis, it is still performing above the earnings targets established by the Company.

The Delmarva distribution operations experienced a drop of $197,000 in gross margin. Volumes sold for the second quarter were down 9 percent. Increased competition and warmer temperatures negatively impacted volumes. Management estimates that $30,000 in additional margin would have been earned if the temperatures had been equal to the 10-year average. The Florida propane operation increased their pre-tax operating income by $106,000 for the second quarter.

Advanced Information Services

The advanced information services business contributed a pre-tax operating income of $176,000 for the second quarter of 2002 compared to $112,000 for the second quarter of last year. The increase is the result of decreased operating expenses that more than offset decreased revenues.

For the Three Months Ended June 30,	2002	2001	Change
Revenue	$ 3,362,386	$ 3,605,098	$ (242,712)
Cost of sales	1,763,137	1,884,868	(121,731)
Gross margin	1,599,249	1,720,230	(120,981)
Operations & maintenance	1,234,106	1,379,042	(144,936)
Depreciation & amortization	52,218	67,649	(15,431)
Other taxes	136,971	161,385	(24,414)
Pre-tax operating expenses	1,423,295	1,608,076	(184,781)
Total Pre-tax Operating Income	$ 175,954	$ 112,154	$ 63,800

This segment was adversely affected by the nation's economic slowdown as discretionary consulting projects have been postponed or cancelled. Additionally, training revenues have declined significantly due to reluctance on the part of students to travel in the aftermath of September 11. However, a reduction in expenses, primarily sales and marketing, resulted in improved performance in 2002 compared to 2001.

Other Business Operations

Other operations experienced a pre-tax operating loss of $62,000 for the second quarter of 2002 compared to income of $11,000 for the second quarter of last year. The results for 2002 include three full months of operations for the five water businesses that were purchased between April and July of 2001.

For the Three Months Ended June 30,	2002	2001	Change
Revenue	$ 3,018,242	$ 2,342,584	$ 675,658
Cost of sales	1,263,217	1,073,859	189,358
Gross margin	1,755,025	1,268,725	486,300
Operations & maintenance	1,434,660	943,276	491,384
Depreciation & amortization	267,502	221,235	46,267
Other taxes	114,798	93,216	21,582
Pre-tax operating expenses	1,816,960	1,257,727	559,233
Total Pre-tax Operating (Loss) Income	$ (61,935)	$ 10,998	$ (72,933)

The increases in all categories reflect the addition of the new water businesses. Pre-tax operating income dropped $73,000 due to increased expenses associated with building a corporate infrastructure and developing and implementing uniform operating controls and procedures for the group. There have also been some relocations and additions of operating locations for the businesses.

Operating Income Taxes

Income taxes were lower due to the decrease in the operating income for the current quarter. Additionally, during 2002, the Company benefited from a change in the tax law that allows tax deductions for dividends paid on Company stock held in Employee Stock Ownership Plans ("ESOP").

Interest Expense

Interest for the second quarter of 2002 increased approximately $23,000, or 2 percent, over the same period in 2001. The results for 2001 included a reduction in interest expense of $85,000 due to the capitalization of interest on a large construction project. There was no similar project in 2002. Interest on short-term debt declined due to a reduction in the average interest rate for short-term borrowing from 4.98 percent on an average balance of $18.1 million for the three-month period ended June 30, 2001 to 2.39 percent on an

average balance of $28.1 million for the same period in 2002. Interest on long-term debt also declined due to scheduled repayments of debt.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2002

Consolidated Overview

The Company recognized net income before cumulative effect of change in accounting principle of $5.4 million, or $0.99 per share, for the first six months of 2002, a decrease of $619,000, or $0 14 per share, compared to the corresponding period in 2001. As indicated in the following table, the decline in income is primarily attributable to lower profitability of propane and the advanced information services segments, as well as increased cost to add a corporate infrastructure to the water business, partially offset by lower taxes and interest expenses.

Chesapeake adopted Financial Accounting Standards Board Statement of Accounting Standards No. 142, "Goodwill and Other Intangible Assets," in the first quarter of 2002. As a result of the change in the goodwill impairment testing methods prescribed by SFAS No. 142, a non-cash charge for goodwill impairment of $1.9 million, after tax, was recorded as the cumulative effect of a change in accounting principle. The charge was necessitated primarily by the performance of the Michigan water business. After giving effect to this charge, earnings per share for the first six months were $0.64. In accordance with the pronouncement, Chesapeake also ceased regular amortization of goodwill. Amortization of goodwill for the twelve months ended December 31, 2001 amounted to $142,000, after tax, or approximately $0.026 per share. The Company's remaining goodwill balance was $2.3 million as of June 30, 2002.

The impact of the change in accounting principle is discussed further in Note 5 to the Consolidated Financial Statements.

For the Six Months Ended June 30,	2002	2001	Change
Pre-tax Operating Income (Loss)			
Natural Gas Distribution & Transmission	$ 9,246,110	$ 8,885,220	$ 360,890
Propane	1,719,283	3,099,388	(1,380,105)
Advanced Information Services	103,938	215,767	(111,829)
Other & Eliminations	(177,392)	(20,345)	(157,047)
Pre-tax Operating Income	10,891,939	12,180,030	(1,288,091)
Operating Income Taxes	3,283,207	3,772,471	(489,264)
Interest	2,446,187	2,624,574	(178,387)
Non-Operating Income, net	250,627	249,210	1,417
Net Income before cumulative effect of change in accounting principle	5,413,172	6,032,195	(619,023)
Cumulative effect of change in accounting principle	(1,916,000)	0	(1,916,000)
Net Income	$ 3,497,172	$ 6,032,195	$ (2,535,023)

Natural Gas Distribution and Transmission

The natural gas distribution and transmission segment earned pre-tax operating income of $9.2 million for the first six months of 2002 compared to $8.9 million for the corresponding period last year, an increase of $361,000.

For the Six Months Ended June 30,	2002	2001	Change
Revenue	$ 52,778,025	$ 70,391,753	$(17,613,728)
Cost of gas	30,856,732	49,617,764	(18,761,032)
Gross margin	21,921,293	20,773,989	1,147,304
Operations & maintenance	8,059,772	7,785,632	274,140
Depreciation & amortization	3,261,288	2,796,247	465,041
Other taxes	1,354,123	1,306,890	47,233
Pre-tax operating expenses	12,675,183	11,888,769	786,414
Total Pre-tax Operating Income	$ 9,246,110	$ 8,885,220	$ 360,890

Revenue and cost of gas decreased due to lower natural gas commodity costs in 2002 compared to 2001. Commodity cost changes are passed on to the ratepayers through a Gas Cost Recovery ("GSR") or Purchased Gas Cost Adjustment ("PGA") in all jurisdictions; therefore, they have no impact on the Company's profitability. Revenue and cost of gas were also down in part because of "open access" which took effect in 2001 for all non-residential customers of the Florida division. As a result, some customers switched from sales service, where they purchase both the commodity and transportation from the Company, to purchasing transportation only.

Gross margin increased $1.1 million over the same period in 2001 due to increases in the margins for the transmission operation and the Florida distribution operation. Transmission margin was up due to the completion of a major system expansion in November of 2001. The Company expects this system expansion to increase margin by approximately $2.2 million per year. As discussed more fully in the regulatory matters section, the Company's transmission subsidiary, Eastern Shore Natural Gas Company ("Eastern Shore"), has reached an agreement in principle with its customers that, if approved by the Federal Energy Regulatory Commission, would lower annual margins by an estimated $456,000. The new rates are expected to take effect in the third quarter of 2002. Margins in Delaware and Maryland were adversely impacted by temperatures that were 16 percent warmer (464 degree-days) than 2001 and 12 percent (347 degree-days) warmer than the 10-year average. Management estimates that on an annual basis, margins will decrease by $1,730 for each degree-day warmer than the 10-year average. This decline was partially offset by customer growth of 1,805 or 5.6 percent and a rate increase in Delaware. Chesapeake estimates that for each customer added, an additional $335 per year will be added to earnings before interest, taxes, depreciation and amortization. The margin increases were partially offset by higher operating expenses, primarily depreciation. The increase in depreciation reflects completion of recent capital projects that increased the transmission capacity by 25 percent and various expansion projects in Florida.

Propane

For the first six months of 2002, the propane segment contributed pre-tax operating income of $1.7 million compared to $3.1 million for the first six months of 2001. Gross margin decreased $2.0 million, but was partially offset by reductions in operating expenses of $647,000.

For the Six Months Ended June 30,	2002	2001	Change
Revenue	$ 56,784,013	$123,547,777	$(66,763,764)
Cost of sales	48,292,909	113,029,889	(64,736,980)
Gross margin	8,491,104	10,517,888	(2,026,784)
Operations & maintenance	5,547,189	6,300,459	(753,270)
Depreciation & amortization	818,632	728,015	90,617
Other taxes	406,000	390,026	15,974
Pre-tax operating expenses	6,771,821	7,418,500	(646,679)
Total Pre-tax Operating Income	$ 1,719,283	$ 3,099,388	$ (1,380,105)

Both the revenue and cost of sales declined significantly for the propane segment. Propane wholesale marketing accounted for $57.9 million of the revenue decrease and $56.7 million of the cost of sales decrease. The drop primarily reflects the decrease in the wholesale prices for propane from the first six months of 2001 to the first six months of 2002. Additionally, the volume of activity was down, due to the lower price volatility in 2002. A consensus was reached by the EITF in June 2002 to revise EITF 02-03 and disallow gross reporting of revenue and cost of sales for energy trading contracts. The Company's propane wholesale marketing operation currently uses the gross method for certain energy trading contracts. The final EITF has not been issued; however, implementation is expected to be required in the third quarter of 2002. The requirement that all energy trading contracts be reported net would reduce both the revenue and cost of sales by approximately $44.2 million in 2002 and approximately $102.5 million in 2001. There is no impact on the gross margin, net income, earnings per share or the financial position of the Company. Propane distribution revenues and costs were also lower by $8.9 million and $8.0 million, respectively, due to the drop in propane commodity prices. Commodity cost changes, both increases and decreases, are generally passed on to the distribution customers contingent upon competitive market conditions.

The Delmarva distribution operations experienced a drop of $1.2 million in gross margin. Volumes sold for the first six months were down 20 percent. Volumes were negatively impacted by temperatures that were 16 percent warmer than 2001, increased competition and lower sales to the poultry industry. Management estimates that $512,000 in additional margin would have been earned if the temperatures had been equal to the 10-year average. The reduction in sales to poultry customers resulted in a drop in margin of $140,000 compared to 2001. A decrease in operating expenses of $492,000 partially offset the decline in margin. Cost containment efforts that began in April 2001 remain in effect and have reduced customer accounting and sales and marketing costs. Other costs, such as delivery expenses, decreased due to the lower volumes sold. The pre-tax operating income of the Florida propane operation increased by $143,000 for the first six months.

Propane wholesale marketing margins declined by $1.1 million and were partially offset by a reduction of $275,000 in operating expenses. The 2001 results reflected increased opportunities due to the extreme price volatility in the propane wholesale market. The same level of price fluctuations has not been experienced in 2002. The 2002 results reflect increased margin of approximately $650,000 that resulted from a bankrupt vendor defaulting on supply contracts during the first quarter of 2002. The supply was replaced by purchasing from different vendors at a lower cost than the original contract. Although the propane wholesale marketing business has not been as profitable as in 2001, it is still performing above the earnings targets established by the Company.

Advanced Information Services

The advanced information services business earned a pre-tax operating income of $104,000 for the first six months of 2002 compared to income of $216,000 for the first half of last year. The decrease is the result of decreased revenue partially offset by decreased operating expenses.

For the Six Months Ended June 30,	2002	2001	Change
Revenue	$ 6,421,642	$ 7,095,884	$ (674,242)
Cost of sales	3,381,949	3,652,483	(270,534)
Gross margin	3,039,693	3,443,401	(403,708)
Operations & maintenance	2,511,707	2,777,096	(265,389)
Depreciation & amortization	108,588	129,922	(21,334)
Other taxes	315,460	320,616	(5,156)
Pre-tax operating expenses	2,935,755	3,227,634	(291,879)
Total Pre-tax Operating Income	$ 103,938	$ 215,767	$ (111,829)

This segment was adversely affected by the nation's economic slowdown as discretionary consulting projects have been postponed or cancelled. Additionally, training revenues have declined significantly due to reluctance on the part of students to travel in the aftermath of September 11. This was partially offset by reduction in operating expenses, principally sales and marketing.

Other Business Operations

Other operations experienced a pre-tax operating loss of $177,000 for the first half of 2002 compared to $20,000 for the first six months of last year. The results for 2002 include a full six months of operations for the five water businesses that were purchased between April and July of 2001.

For the Six Months Ended June 30,	2002	2001	Change
Revenue	$ 5,792,385	$ 4,055,327	$ 1,737,058
Cost of sales	2,388,101	1,822,421	565,680
Gross margin	3,404,284	2,232,906	1,171,378
Operations & maintenance	2,826,334	1,651,897	1,174,437
Depreciation & amortization	520,148	420,151	99,997
Other taxes	235,194	181,203	53,991
Pre-tax operating expenses	3,581,676	2,253,251	1,328,425
Total Pre-tax Operating Loss	$ (177,392)	$ (20,345)	$ (157,047)

The increases in all categories reflect the acquisition of the new water businesses. Pre-tax operating income dropped $157,000 due to increased expenses associated with building a corporate infrastructure and developing and implementing uniform operating controls and procedures for the group. There have also been some relocations and additions of operating locations for the businesses.

Operating Income Taxes

Operating income taxes were lower due to the decrease in operating income for the six months ended June 30, 2002. Additionally, during 2002, the Company benefited from a change in the tax law that allows tax deductions for dividends paid on Company stock held in Employee Stock Ownership Plans ("ESOP").

Interest Expense

Interest expense for the first six months of 2002 decreased approximately $178,000, or 7 percent, over the same period in 2001. The decrease was due primarily to a reduction in the average interest rate for short-term borrowing from 5.67 percent on an average balance of $21.2 million for the fist half of 2001 to 2 37 percent on an average balance of $32.9 million for the same period in 2002. A reduction in the average long-term debt balance of $2.6 million due to scheduled repayments also contributed to this reduction.

Environmental Matters

The Company continues to work with federal and state environmental agencies to assess the environmental impact and explore options for corrective action at three former gas manufacturing plant sites. The Company believes that future costs associated with these sites will be recoverable in rates or through sharing arrangements with, or contributions by, other responsible parties. The Company is in discussions with the Maryland Department of the Environment regarding a fourth site located in Cambridge, Maryland. The outcome of this matter cannot be determined at this time. See Note 3 to the Consolidated Financial Statements for further information.

OTHER MATTERS

Regulatory Matters

The Delaware, Maryland and Florida Public Service Commissions regulate the Company's natural gas distribution operations, while the natural gas transmission operation is regulated by the Federal Energy Regulatory Commission ("FERC").

On August 2, 2001, the Delaware Division filed a general rate increase application. Interim rates, subject to refund, went into effect on October 1, 2001. A settlement agreement was approved in April 2002 by the Delaware Public Service Commission that should result in an increase in rates of approximately $380,000 per year.

On October 31, 2001, Eastern Shore, the Company's natural gas transmission subsidiary, filed a rate change with the United States Federal Energy Regulatory Commission pursuant to the requirements of a Stipulation and Agreement approved by the FERC in October 1997. Eastern Shore's filing proposed a change in base rates for firm transportation services.

Following settlement conferences held in May 2002, the parties reached a settlement in principle. The agreement provides that Eastern Shore's rates will be based on a cost of service of $12.9 million per year, including a rate of return higher than had been approved in 1997. If the agreement receives final FERC approval, cost savings estimated at $456,000 annually will be passed on to firm transportation customers. The settlement in principle was filed on August 2, 2002; there is a thirty-day comment period. It is anticipated that the settlement agreement will be finalized in the third quarter 2002.

The Florida division filed tariff revisions on March 29, 2002 to complete the unbundling process by requiring all customers, including residential, to migrate to transportation service and authorize the Florida division to exit the merchant function. Transportation services are currently available to all non-residential customers. The Florida Public Service Commission has requested that the Company hold customer meetings to allow for an opportunity for comments by our customers. These meetings were held on June 25 and 26, 2002 at four locations in our service territory. The Public Service Commission is expected to address this matter at its August 20, 2002 Agenda Conference. At this time, the outcome of the petition cannot be determined.

Competition

The Company's natural gas operations compete with other forms of energy including electricity, oil and propane. The principal competitive factors are price, and to a lesser extent, accessibility. The Company's natural gas distribution operations have several large volume industrial customers that have the capacity to use fuel oil as an alternative to natural gas. When oil prices decline, these interruptible customers convert to oil to satisfy their fuel requirements. Lower levels in interruptible sales occur when oil prices are lower relative to the price of natural gas. Oil prices, as well as the prices of electricity and other fuels are subject to fluctuation for a variety of reasons; therefore, future competitive conditions are not predictable. To address this uncertainty, the Company uses flexible pricing arrangements on both the supply and sales side of its business

to maximize sales volumes. As a result of the transmission business' conversion to open access, this business has shifted from providing competitive sales service to providing transportation and contract storage services

The Company's natural gas distribution operations located in Maryland, Delaware and Florida began offering transportation services to certain industrial customers during 1998, 1997 and 1994, respectively. In 2001, the Florida operation extended transportation service to commercial customers. With transportation services now available on the Company's distribution systems, the Company is competing with third party suppliers to sell gas to industrial customers. The Company's competitors include the interstate transmission company if the distribution customer is located close enough to the transmission company's pipeline to make a connection economically feasible. The customers at risk are usually large volume commercial and industrial customers with the financial resources and capability to bypass the distribution operations in this manner. In certain situations, the distribution operations may adjust services and rates for these customers to retain their business. The Company expects to continue to expand the availability of transportation services to additional classes of distribution customers in the future. The Company established a natural gas brokering and supply operation in Florida in 1994 to compete for customers eligible for transportation services.

The Company's propane distribution operations compete with several other propane distributors in their service territories, primarily on the basis of service and price. Competitors include several large national propane distribution companies, as well as an increasing number of local suppliers. Some of these competitors have pricing strategies designed to acquire market share.

The Company's advanced information services segment faces competition from a number of competitors, many of which have greater resources available to them than those of the Company. This segment competes on the basis of technological expertise, reputation and price.

The water businesses face competition from a variety of national and local suppliers of water conditioning and treatment services and bottled water.

Recent Pronouncements

See Note 4 to the Consolidated Financial Statements for a discussion of recent accounting pronouncements, including the consequences on revenue and cost of sales of EITF 02-03.

Inflation

Inflation affects the cost of labor, products and services required for operation, maintenance and capital improvements. While the impact of inflation has remained low in recent years, natural gas and propane prices are subject to rapid fluctuations Fluctuations in natural gas prices are passed on to customers through the gas cost recovery mechanism in the Company's tariffs. To help cope with the effects of inflation on its capital investments and returns, the Company seeks rate relief from regulatory commissions for regulated operations while monitoring the returns of its unregulated business operations. To compensate for fluctuations in propane gas prices, the Company adjusts its propane selling prices to the extent allowed by the market.

Cautionary Statement

Chesapeake has made statements in this report that are considered to be forward-looking statements. These statements are not matters of historical fact. Sometimes they contain words such as "believes," "expects," "intends," "plans," "will," or "may," and other similar words of a predictive nature. These statements relate to matters such as customer growth, changes in revenues or margins, capital expenditures, environmental remediation costs, regulatory approvals, market risks associated with the Company's propane marketing operation, competition and other matters. It is important to understand that these forward-looking statements are not guarantees, but are subject to certain risks and uncertainties and other important factors that could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things:

- the temperature sensitivity of the natural gas and propane businesses;
- the wholesale prices of natural gas and propane and market movements in these prices;
- the effects of competition on the Company's unregulated and regulated businesses;
- the effect of changes in federal, state or local regulatory requirements, including deregulation;
- the effect of accounting changes;
- the ability of the Company's new and planned facilities and acquisitions to generate expected revenues; and
- the Company's ability to obtain the rate relief and cost recovery requested from utility regulators and the timing of the requested regulatory actions.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the potential loss arising from adverse changes in market rates and prices. The Company's long-term debt consists primarily of senior notes, first mortgage bonds and convertible debentures with fixed interest rates, none of which was entered into for trading purposes. The carrying value of this long-term debt at June 30, 2002 was $49.7 million, with a fair value of $56.7 million, based mainly on current market prices or discounted cash flows using current rates for similar issues with similar terms and remaining maturities. The Company is exposed to changes in interest rates due to the use of fixed rate long-term debt to finance the business. Management continually monitors fluctuations in interest rates and debt markets to assess the benefits of changing the mix of long and short-term debt or refinancing existing debt.

The Company's propane distribution business is exposed to market risk as a result of propane storage activities and entering into fixed price contracts for supply. The Company can store up to approximately 4 million gallons of propane during the winter season to meet its customers' peak requirements and to serve metered customers. Decreases in the wholesale price of propane may cause the value of stored propane to decline.

The Company's propane wholesale marketing operation is a party to natural gas liquids ("NGL") forward contracts, primarily propane contracts, with various third parties. These contracts require that the propane wholesale marketing operation purchase or sell NGL at a fixed price at fixed future dates. At expiration, the contracts are settled by the delivery of NGL to the Company or the counter party or booking out the transaction. (Booking out is a procedure for financially settling a contract for the physical delivery of energy.) The propane wholesale marketing operation also enters into futures contracts that are traded on the New York Mercantile Exchange. In certain cases, the futures contracts are settled by the payment of a net amount equal to the difference between the current market price of the futures contract and the original contract price.

The forward and futures contracts are entered into for trading and wholesale marketing purposes. The propane marketing business is subject to commodity price risk on its open positions to the extent that market prices for NGL deviate from fixed contract settlement prices. Market risk associated with the trading of futures and forward contracts are monitored daily for compliance with the Company's Risk Management Policy, which

includes volumetric limits for open positions. To manage exposures to changing market prices, open positions are marked up or down to market prices and reviewed by oversight officials on a daily basis. Additionally, the Risk Management Committee reviews periodic reports on market and credit risk, approves any exceptions to the Risk Management Policy (within limits established by the Board of Directors) and authorizes the use of any new types of contracts. Quantitative information on forward and futures contracts at June 30, 2002 is presented in the following table All of the contracts mature within twelve months.

At June 30, 2002	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	14,607,600	$0.3875 — $0 4125	$0.3798
Purchase	10,710,000	$0.3775 — $0.3975	$0.3899
Futures Contracts			
Sale	3,360,000	$0.3815 — $0.3910	$0.3856
Purchase	1,428.000	$0.3825 — $0.3825	$0.3825

Estimated market prices and weighted average contract prices are in dollars per gallon.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

See Note 3 to the Consolidated Financial Statements

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults upon Senior Securities

None

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

(a) The matters described in Item 4(c) below were submitted to a vote of stockholders at the Annual Meeting of Stockholders on May 21, 2002 in connection with which, proxies were solicited in accordance with Regulation 14A under the Securities Exchange Act of 1934, as amended.

(b) Not applicable.

(c) Proposals as submitted in the proxy statement were voted on as follows:

   i. The election of Thomas J. Bresnan, Water J. Coleman, Joseph E. Moore and John R. Schimkaitis as Class III Directors for three-year terms ending in 2005, and until their successors are elected and qualified; and

   ii. The ratification of the selection of PricerwaterhouseCoopers, LLP as independent auditors for the fiscal year ending December 31, 2002.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit 99

Certificate of Chief Executive Officer and Chief Financial Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C Section 1350, dated August 14, 2002

(b) Reports on Form 8-K

None

SIGNATURES

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

CHESAPEAKE UTILITIES CORPORATION

/S/ MICHAEL P. MCMASTERS

Michael P. McMasters
Vice President, Treasurer and Chief Financial Officer

Date: August 14, 2002

Exhibit 99

Certificate of Chief Executive Officer and Chief Financial Officer

of

Chesapeake Utilities Corporation

(pursuant to 18 U.S.C. Section 1350)

I, John R. Schimkaitis, President and Chief Executive Officer, and I, Michael P. McMasters, Vice President, Chief Financial Officer and Treasurer, of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Chesapeake Utilities Corporation ("Chesapeake") for the quarter ended June 30, 2002, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
August 14, 2002

/S/ MICHAEL P. MCMASTERS
Michael P. McMasters
August 14, 2002